Austria Sch22	Indonesia Rp3100	Portugal Esc100
Bahrain Din0.650	Israel IS3.50	S.Arabia Rls7.00
Belgium BFr48	Italy L1,800	Singapore S$4.10
Canada C$1.00	Japan Y500	Spain Pta125
Cyprus C£0.75	Jordan Fils500	Sri Lanka Rup30
Denmark DKr9.00	Kuwait Fils500	Sweden SKr9.00
Egypt E£2.25	Lebanon $1,125.00	Switz SFr2.20
Finland Fmk7.00	Lux LFr48	Taiwan NT$65
France FFr6.50	Malaysia Rin4.25	Thailand Bt50
Germany DM2.20	Mexico Pes900	Tunisia Din0.800
Greece Dr100	Morocco Dh6.00	Turkey L500
Hong Kong HK$12	Neth Fl3.00	UAE Dh6.50
India Rup15	Norway Nkr10.00	USA $1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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The Fed: defining what to worry about, Page 12

World News

Howe to take tough arms line in Moscow

UK Foreign Secretary Sir Geoffrey Howe, who began a four-day visit to Moscow yesterday, will tell Soviet leaders that Britain is not prepared to negotiate cuts in its nuclear arms even if the US and the Soviet Union agree on a 50 per cent cut in their strategic weapons. Page 18

China admits shooting

China has admitted that police opened fire while under siege from Tibetans demonstrating in Lhasa against Chinese rule last October. At least three people died in the disturbances.

Bomb kills PLO men

A car bomb killed three officers of Yasser Arafat's Fatah faction of the Palestine Liberation Organisation in Cyprus. It was not thought to be connected with presidential elections taking place.

Zurich hotel fire

Six people died in a fire at Zurich'a five-star International Hotel and some 180 hotel guests evacuated into freezing temperatures while firemen battled for an hour-and-a-half to bring the blaze under control.

Goria confidence vote

Italian Premier Giovanni Goria will seek a parliamentary vote of confidence this week, after Preeident Cossiga refused to accept his resignation. Page 2

Gandhi reshuffle

Indian Premier Rajiv Gandhi reshuffled his cabinet for the 12th time since taking office three years ago, introducing 13 new ministers. Page 18

Israel 'burial' report

The Israeli army said it was investigating a report that soldiers used a bulldozer to bury alive four Palestinian protesters in a West Bank village. US peace move rejected, Page 18

Nuclear 'accident' call

UK opposition spokesman Martin O'Neill called for a full government statement on a report that a nuclear accident on a Polaris submarine was avoided by minutes.

Nazi files stolen

Thousands of Nazi Party and SS membership files stolen from the US-run Berlin Document Centre in West Berlin may have been used to blackmail prominent former Nazis. Page 2

Aquino told to be firm

Philippines Congress leaders urged President Corazon Aquino to resist calls by senior officers for her to assume emergency powers in the fight against guerrillas. Page 3

King backs Mahathir

The King of Malaysia urged his people to support Premier Dr Mahathir Mohamed, who is facing difficulties since his party was declared illegal. Page 3

Hijackers foiled

Tanzanian security forces overpowered four hijackers at Dar es Salaam airport after the captain of their aircraft tricked them into believing he had flown them to Kenya.

17 die in Sri Lanka

Indian troops killed 12 Tamil rebels in east Sri Lanka, hours after five soldiers died in a landmine explosion. Page 3

Sudan siege 'broken'

The Sudanese Government said its troops ended a 2½-year siege by rebels of the southern town of Bor, in an operation that left 110 rebels dead.

Cash cards returned

Automatic cash-dispensing cards are being handed back to Irish banks at the rate of 400 a day since the Dublin Government imposed a I£10 ($16) annual levy on their use.

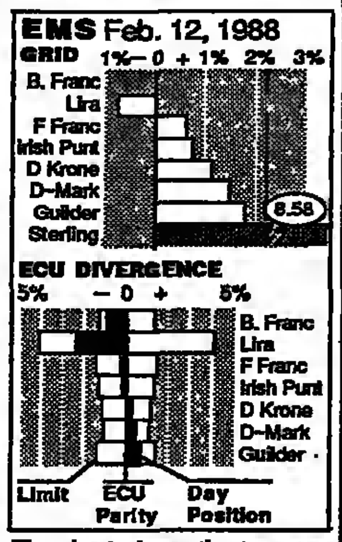
Business Summary

Electrolux plans big global investment

ELECTROLUX, Swedish multinational group, is preparing a multi-million dollar global investment programme to help consolidate its position as the world's leading domestic appliance maker. Page 19

EUROPEAN Monetary System: The lira lost ground as markets reacted to the resignation of the Italian Prime Minister. The Bank of Italy sold D-Marks, French francs and dollars on Thursday, although the amounts involved were relatively modest.

Most other currencies were little changed as traders awaited the outcome of the emergency European Community summit, called to try to solve EC budget problems. The Belgian franc was the weakest member, but was well within its divergence limit.



The chart shows the two constraints on European Monetary system exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (Ecu), itself a basket of European currencies. Currencies, Page 36

PIRELLI, Italian tyre group, has reportedly started discussions with Firestone Tire and Rubber Company over acquiring the US company's tyre maunfacturing assets. Page 21

COMPUTER memory chip prices are rising sharply because of a worldwide shortage, and slowing computer production. Page 4

HONG KONG banks are increasing the local prime lending rate from 5¼ per cent to 6 per cent, the first rise for six months. Page 4

BIRMID QUALCAST, British home products and foundries group, was close to conceding defeat after voting ended in one of the closest bid battles in UK corporate history. Page 19

AUSTRALIAN corporate tax cuts, and probably personal tax cuts were signalled by Premier Bob Hawke. Page 4

NEDLLOYD, the Dutch shipping group, is considering a legal challenge to a shareholders' rejection of a controversial share issue. Page 21

AIR CANADA has been promised C$300m federal aid to help buy aircraft. Page 21

HOSPITAL CORPORATION of America, large Nashville-based hospital chain which has been hit by falling admissions, reported a return to fourth-quarter profit. Page 21

KATOKICHI, a frozen foods maker, this week becomes the first Japanese company to offer its equity directly in the Euromarkets, with an issue raising the equivalent of between $60m and $65m. Page 21

SYNTHETIC DIAMONDS are going up in price for the first time since 1982. De Beers Industrial Diamond Division is increasing prices by 15 per cent in March. Page 8

UK RETAILERS are expecting a modest reduction in sales growth this month, according to a Confederation of British Industry/FT survey. Page 8.

Cutting a swathe through US presidential hopefuls

BY STEWART FLEMING IN NASHUA, NEW HAMPSHIRE

THE FIERCELY contested New Hampshire presidential primary elections tomorrow are expected to result in the effective elimination of as many as five of the twelve Republican and Democratic candidates.

But, barring new surprises, such as the remarkable second place showing of Mr Pat Robertson, the former television evangelist in the Republican vote in last week's Iowa caucuses, the main contenders with enough financial support to remain in the race after Tuesday will be looking towards March 8. That is when 20 states have primaries which will be a more decisive test of the candidates.

The Republican presidential candidates are locked in a tight tactical race in New Hampshire.

The momentum from Senator Robert Dole's victory in Iowa has put victory in New Hampshire within reach, but it is by no means assured. The ABC News/Washington Post poll published yesterday has Senator Dole and Mr George Bush, the Vice-President, in a tie, each with the support of about 30 per cent of those polled.

But Mr Dole's campaign has caught fire since his Iowa victory and Mr Bush's third place behind Mr Robertson.

Two weeks ago Mr Bush had a 20 point lead in New Hampshire polls. Now a victory is vital if he is to avoid being tagged a loser.

Mr Robertson is not expected to do as well here as in Iowa. Polls show him running neck and neck with rival conservatives Mr Jack Kemp and the former Govenor of Delaware, Mr Pierre Dupont.

Mr Kemp and Mr Dupont, however, are seen to be on the verge of being eliminated, unless they can score a major suprise – and that has happened frequently in New Hampshire over the past 36 years.

Mr Robertson is widely expected to continue to play a major role in the campaign in the southern primaries, even if he does not do well here: he has a strong financial base and fervant supporters in the bible belt and southern states.

On the Democratic side the winner of the New Hampshire primary is already known, if the polls and judgements of rival campaign managers do not lie.

He is Governor Michael Dukakis from the neighbouring state of Massachusetts.

Mr Dukakis has a more than 2-1 advantage over his rivals, with the latest ABC News/Washington Post poll suggesting that 40 per cent of voters in the Democratic primary will choose him.

Only about 16 per cent say they will vote for either of his

Continued on Page 18

Thatcher mounts defence of EC summit agreement

BY OUR FOREIGN AND POLITICAL STAFF

MRS MARGARET Thatcher is today expected to mount a determined defence in the British Parliament of the Brussels summit package and of her own negotiating performance.

Despite a wave of weekend criticism at the outcome of the summit, including claims that she had accepted an agreement which fell far short of her declared minimum demands, Mrs Thatcher will tell the House of Commons that the summit was highly successful.

Other European leaders generally appeared content with a compromise deal which had avoided a crisis within the EC and which they felt opened the way to closer European unity and economic integration.

Earlier indignation about Mrs Thatcher's "no compromise" approach had, by yesterday, given way to a certain amount of open satisfaction that she had not got everything she had wanted.

Chancellor Helmut Kohl of West Germany said his government would cushion its farmers from the impact of the summit decision to place controls on agricultural spending.

EC finances, he added, were now on a firm footing until 1992.

In France, President Mitterrand and Mr Jacques Chirac, the Prime Minister, believe they have returned to Paris with a deal which included some concessions, but which had held the line on the crucial question of French agricultural interests.

The issue is particularly important for Mr Chirac, who had declared immediately before the summit that he could make no more concessions beyond those already agreed by the Agriculture Ministers of the Community.

British critics of the package extend to some of Mrs Thatcher's own backbench MPs, who believe she has again missed an opportunity to force fundamental reforms in the common agricultural policy.

There is also criticism that she did not use her veto to stop the agreement.

In Whitehall it was being stressed last night that Mrs Thatcher had achieved crucial agreement, both on future budgetary controls and moves to reduce agricultural surpluses.

It was denied that the summit outcome represented a defeat for her traditionally resolute stand on European budgetary matters. Officials pointed out that the urgent need to reach agreement had made the use of the veto inappropriate.

In her statement to the House of Commons, Mrs Thatcher is expected to defend the British concessions as being necessary in the wider interests of the Community.

She will reject allegations that the deal means farm spending and mounting food surpluses will continue unchecked and is expected to highlight the introduction of a system of automatic price cuts aimed at penalising farmers for over-production.

She will also emphasise that the entire agreement remains

Summit relief, Page 2; Editorial Comment, Page 16; An end to nay-saying, Page 17
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Helmut Kohl at the end of a difficult summit

MAIN POINTS OF THE AGREEMENT

- **Overall ceiling on EC spending for next five years set at 1.2-1.3 per cent of total Community GNP. Budget estimated at Ecu 52.7bn or $64.3bn in 1992. New basis for member state contributions.**
- **Farm expenditure restricted to Ecu 27.5bn in 1988. Rise in future to be kept to three-quarters of Community GNP increase.**
- **Automatic price cuts when production threshold is breached for cereals (160m tonnes in 1988-92 and 3 per cent cut in subsequent year) and oilseeds. Agreement on other commodities pending Foreign Ministers meeting.**
- **Regional spending to rise by 80 per cent by 1992 and double by 1993.**
- **Continuation of British budget rebate system.**

Austrian leader may quit over Waldheim affair

BY JUDY DEMPSEY IN VIENNA

AUSTRIA'S political crisis deepened yesterday when Mr Franz Vranitzky, the Chancellor, gave the clearest indication yet he is considering resigning if Mr Kurt Waldheim, the country's President, does not step down from office.

In an hour-long television interview, Mr Vranitzky, who heads a Socialist-led coalition with the Conservative People's Party (OEVP), said it was becoming impossible to carry out the daily tasks of government because the Waldheim affair was taking up at least 60 per cent of his time.

Last week a commission of historians found that Mr Waldheim, a former Secretary-General of the United Nations knew about Nazi war crimes, although he was not personally responsible for any.

The report showed that Mr Waldheim had, among other things, known about the deportation of Greek Jews to the concentration camps during the war and has repeatedly lied about his past. In a radio interview at the weekend, Mr Waldheim said he "had not intentionally lied."

"We have to decide if the institutions of the state are functioning," Mr Vranitzky said, adding that he had to continue to defend those institutions at a time when Mr Waldheim, as president, had lost credibility and was not confronting the issues raised in the report by the commission of historians.

The next few days will be crucial for the future of the government. Tonight, Mr Waldheim will make a five-minute speech on Austrian television. If he does not announce his resignation nor accept the moral consequences of the report by the historians, Mr Vranitzky will be forced to react.

Much depends on mounting public opinion which is calling for Mr Waldheim's resignation or whether the OEVP will now distance itself from Mr Waldheim. Several thousand people yesterdaygathered in the centre of Vienna calling for the president's resignation.

Last week, Mr Waldheim and his supporters including Mr Alois Mock, the Foreign Minister and leader of the OEVP, accused the commission of historians of going beyond its mandate.

The Chancellor said that during a very tense and angry discussion last week with the president and Mr Mock "the question of trust" between the government and the president had been raised. He implied that Mr Waldheim had threatened to dismiss the government if it went ahead and accepted the report.

Had the government rejected the report which it had commissioned in the first place, "we would have lost all political credibility," the Chancellor added.

Mr Vranitzky openly challenged Mr Waldheim and his advisors for using criticism from abroad as an excuse to defend their own positions.

"One has to advise him (Mr Waldheim) and his advisors to stop regarding this (criticism from abroad) as a world-wide Jewish conspiracy," said Mr Vranitzky. He also criticised the president for not reacting quickly enough to these kinds of accusations.

He was referring to the latest anti-semitic remarks made by Mr Karl Gruber, a former foreign minister, a member of the OEVP and staunch defender of Mr Waldheim, who last Thursday said the commission of historians were "anti-Waldheim because some of them were socialists and of Jewish origin."

Mr Vranitzky immediately sent a telegram to the historians defending their work. Mr Waldheim finally reacted yesterday but did not completely condemn Mr Gruber's outburst.

Argentina near to agreement with IMF on loan

By Alexander Nicoll, Euromarkets Editor, in London

ARGENTINA EXPECTS to clinch an agreement with the International Monetary Fund early this week which will ease its financial crisis by triggering the release of money from the Fund, commercial banks and foreign governments.

Mr Jose Luis Machinea, president of Argentina's central bank, was in Washington at the weekend for final negotiations which he said would lead to announcement of an IMF accord today or tomorrow.

He said that the package being finalised would include a new bridging loan of over $500m from governments. This would be similar to that orchestrated last October by the US Treasury.

Argentina, critically short of foreign exchange reserves, has been building up arrears on interest payments to commercial banks since the beginning of the year and faces a deadline today for payment of $350m of principal and interest on dollar-denominated bonds.

Agreement with the IMF would involve release of a $225m tranche of a previously arranged IMF standby loan. This, in turn, would trigger disbursement of a $541m portion of a $1.95bn loan from commercial banks.

Mr Machinea said that after reaching the Fund agreement, Argentina aimed to become current on interest payments to banks by the end of March. Also it would soon begin discussing with banks and other creditors its financing needs for 1988.

As part of its agreement with the IMF, Argentina would agree to keep its 1988 fiscal deficit below 3 per cent of gross domestic product, compared with over 7 per cent last year. The country's trade surplus would be targetted at $2.2bn, compared with $500m in 1987, implying a reduction in the current account payments deficit.

An IMF accord would ease the acute concern of bankers about Argentina which, less than a year ago, was being seen as virtually a model among major Third World debtor countries as banks struggled to raise a loan for Mexico and faced an interest payments moratorium by Brazil.

By now, Mexico's economic performance has emboldened it to attempt the bonds-for-loans offer.

Argentina's situation has deteriorated so badly, however, that bankers have been extremely nervous about the possibility that it would formally halt interest payments. Mr Machinea stressed that the Government was not considering such a step.

Congress finds fault with US bank management in London

BY LIONEL BARBER IN WASHINGTON

THE LONDON-BASED securities affiliates of six major US banks have serious management weaknesses and lack clear rules on conflicts of interest in the buying and selling of shares, according to a US Congressional report.

Federal bank regulators who discovered the problems have given the six foreign affiliates a "less than satisfactory" performance rating, according to the report issued last week by the General Accounting Office (GAO), Congress's auditing agency.

The revelations about the London-based securities affiliates emerged as part of a GAO study on what could happen if Congress repealed the 55-year-old Glass-Steagall law separating commercial banking from securities underwriting in the US.

Because US banks can engage in securities trading abroad, the GAO chose to scrutinise the record of eight unidentified US investment banking affiliates, targeted because of their size in the London market.

GAO staff drew on federal examination reports between 1985-87 and comments by officials of the Federal Reserve, the US central bank.

A section of the report paints an alarming picture of weak management with staff exploiting the failure of internal controls in six of the eight investment banking arms.

In one instance, in July 1986, 31 employees bought around 500,000 shares of a public equity offering of one of its clients.

The shares were then sold for a substantial profit during the first few days of trading.

Banking regulators found the action to be "highly questionable from an ethical standpoint," although legal under British law.

Another London-based banking entity suffered a multi-million dollar loss in 1987 resulting from unauthorised positions and others had no written rules on accounting policies, separation of duties and limits on trading by employees. Internal audit functions were also deficient.

Some of the problems are

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Goria set for brief recall as Prime Minister

BY JOHN WYLES IN ROME

MR GIOVANNI GORIA has been raised from the political dead and will seek a parliamentary vote of confidence for his government on Wednesday after Mr Francesco Cossiga, the Italian President, decided at the weekend against accepting his resignation as Prime Minister.

The result is that the young Christian Democrat Prime Minister is heading for one of the strangest, and arguably least constitutional, dying falls in Italian post-war history. In his speech to the Camera, the lower house, on Wednesday, he is expected to make clear that he will again resign once the accident-plagued 1988 budget has cleared parliament.

After 197 days of what the Italian press likes to call "Calvary", Mr Goria, therefore, faces another three weeks or more of difficulty.

The optimistic view of this temporary political solution is that the members of the Prime Minister's own party, who have helped to defeat him in parliament on 17 occasions in recent weeks, will now accept a truce.

Their principal concern has been to bring about a change of Prime Minister - some want Mr Giulio Andreotti, the Foreign Minister and others Mr Ciriaco De Mita, the Christian Democrat leader. They are being promised one fairly explicitly.

The pessimistic view is that one or other of the party's factions will still have an interest in using the secret ballot to defeat Mr Goria, even if he wins his initial vote of confidence.

President Cossiga was apparently reluctant to take this risk but the leaders of the two main coalition parties, Mr De Mita and Mr Bettino Craxi of the Socialists, urged him to do so. In the absence of any other candidate being proposed, Mr Cossiga felt he had little alternative.

The strongest pressure in favour of returning Mr Goria is that the emergency provisions by which the State can still finance its activities expire at the end of April. There is no apparent consitutional possibility of renewal which would mean that there would be no legal basis for any spending at all.

It was widely reported yesterday that Mr De Mita was rethinking his refusal to take up the reins of government after talks with Mr Antonio Gava, leader of the largest Christian Democrat faction.

Gelli faces extradition to Italy this week

BY WILLIAM DULLFORCE IN GENEVA

MR LICIO GELLI, former Grandmaster of the P2 (Propaganda Due) Masonic Lodge who has been in flight from Italian justice for the past seven years, will be returned to Italy this week, Geneva police said yesterday.

Italian prosecutors accuse Mr Gelli of fraud in connection with the bankruptcy of Banco Ambrosiano in 1982 and of complicity in terrorist acts. The body of Mr Roberto Calvi, the chairman of Banco Ambrosiano, was found hanging under Blackfriars Bridge, London, in the same year.

An Italian government commission investigating P2 claimed that Mr Gelli had used it for a conspiracy involving politicians, businessmen, military leaders and heads of the Italian secret services.

Under the extradition order approved by the Swiss Federal Tribunal (supreme court) in 1983, however, Mr Gelli can only be tried on charges linked with the Banco Ambrosiano case and on some lesser slander and fraud matters.

Mr Gelli escaped from Geneva's Champ Dollon prison in August 1983, after being arrested by Swiss police for using false identity papers. He remained at liberty, reportedly in South America, until he surrendered to the Geneva police last September.

In December a Geneva court decided he had to serve a two-months' suspended sentence, passed on him in 1983, before being extradited to Italy.

Blackmail suspected with stolen Nazi files

By Leslie Colitt in Berlin

THOUSANDS of Nazi Party and SS membership files stolen from the US-run Berlin Document Centre in West Berlin may have been used to blackmail prominent former Nazis.

A senior official in West Berlin said yesterday the Berlin and Hamburg state prosecutors were investigating the theft of "several thousand" files missing from the document centre.

Prominent ex-Nazis who rose to responsible positions in West Germany and Austria are suspected of being blackmailed with the stolen membership cards and paying large sums of money to avoid disclosure.

The Western official, who did not want to be identified, said suspicion centred on one or more former employees of the document centre.

The archives, located in a well-guarded complex in the West Berlin suburb of Zehlendorf, contain the files of all members of the Nazi Party and its elite SS organisation.

The files fell into the hands of the Americans in 1945. Access to the archives was given only to researchers working on the Nazi period and to Nato governments.

The name of Mr Kurt Waldheim, the Austrian President, was not in the files of the document centre, the official said. Mr Waldheim, who is under pressure to resign because of his wartime role as a Wehrmacht officer in the Balkans, was not a member of the party. He has said his membership in the Nazi SA was nominal.

The thefts are believed to have begun 15 to 20 years ago, the official said. A number of the documents turned up late last year at an auction in Hamburg and were impounded by the authorities.

"If it was an inside job," the official said, "it looks as if someone was trying to supplement his retirement income".

Some of the documents on Nazi leaders from Adolf Hitler's Reichs Chancelery are believed to have been purchased by wealthy private collectors of Nazi memorabilia.

Among the documents in the archives are application forms filled out for membership in the Nazi Party and the SS as well as "lineage" files dating back 300 years to show the applicants did not have Jewish ancestors.

Tim Dickson and David Buchan analyse the EC reform measures

Relief as spending curbs emerge

RELIEF at the success of the European summit was almost tangible in Brussels over the weekend.

Several times in the past year, Mr Jacques Delors, the EC Commission president, had threatened to resign in frustration at the member-states' failure to pass the reform package he proposed last Feburary.

What has survived the wrangling among the 12 governments is based largely on the principles of the Delors package.

The key principles are that the EC budget should have a new overall ceiling, generous enough to accommodate a big increase in structural economic aid to the Community's poorer regions, but with a vital sub-ceiling and policies restrictive enough to contain farm spending, and over time, reduce its heavy predominance in the budget.

An attempt has been made to find a fairer formula for collecting EC revenues in a way that better reflects individual member-states' relative wealth.

The details:

Total budget ceiling: The new ceiling is set at 1.2 per cent (for payments) and 1.3 per cent (for commitments) of total Community Gross National Product. The old ceiling was set at 1.4 per cent of a theoretically-harmonised Community-wide Value Added Tax base. In these VAT terms in which the Community is used to thinking, the new GNP-based ceiling amounts to 1.9-2.0 per cent.

Real money terms will allow a budget of Ecu 44.1bn this year, rising to Ecu 52.7bn by 1992. This compares with actual spending of about Ecu 37bn last year.

Basis of payment: Member-states are to give the EC a new "fourth resource", based on GNP, in addition to the Community's traditional three resources from farm import levies, customs duties and VAT payments. In recent years, these have declined or levelled off.

When a country's "fourth resource" contribution is assessed, that portion of its economic activity covered by VAT is to be limited to a maximum of 55 per cent. This helps countries such as Luxembourg and Ireland whose VAT base is a high ratio of their GNP and which already pay a relatively high share of the "third resource".

Getting the fourth resource based on GNP, rather than the difference between the VAT base and GNP as Mr Delors originally proposed, is a trade-off for Italy.

Under the new system, it will pay relatively more than others, but not as much as it would have if the fourth resource had been based on its yawning GNP-VAT gap.

UK rebate: Mrs Margaret Thatcher has won agreement on the 1984 formula under which 66 per cent of the UK's net contribution is refunded. Payments by the other 11 states will be on a GNP key, but with the share of West Germany reduced by one third. The fourth resource will slightly lower the share of UK contributions in the EC total, and account will be taken of this.

Structural funds: These will double over 1987-93. They will amount to Ecu 7.8 bn this year and rise thereafter by Ecu 1.3bn a year to Ecu 13bn by 1992. Special funding for Portugal is included in these totals.

The funds are to be more focused than previously on economically backward areas, which are to get a doubling of aid by 1992.

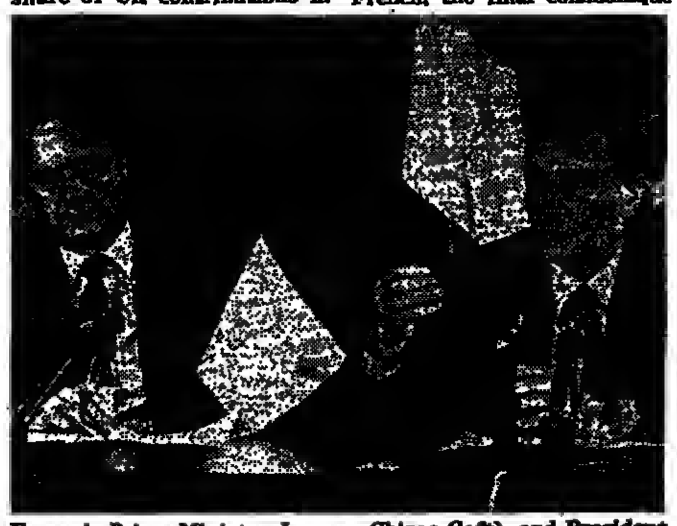
Structural funds constitute the bulk of the EC's non-compulsory, or non-farm price support, spending. The European parliament has more power over this area than over farm funding.

Farm budget discipline: The idea has been to set a ceiling for agricultural spending for the next five years. The "reference basis" or guideline has been fixed at Ecu 27.5bn. for 1988 while the annual rate of increase must not exceed 74 per cent of GNP, Britain was looking for a guideline of Ecu 27bn.

The cost of depreciating surplus stocks will be financed outside the guideline, the period of advances to member-states by the Commission will be extended from two to two-and-a-half months, and special provisions will be made for the contributions of Spain and Portugal to the financing of stock depreciation.

A "monetary reserve" of up to Ecu 1bn. can be called on when currency fluctuations distort farm spending by more than Ecu 400m.

Out of deference to the French, the final communique includes a statement aimed at the EC's trading partners, calling on other world producers to "apply equivalent discipline" to that introduced since 1984 by member-states, and threatening that if a "third" country "fails to meet its international commitments...this situation would be regarded by the Council, on a proposal from the Commission, as justifying recourse to the provisions of the Treaty (of Rome)."



France's Prime Minister Jacques Chirac (left), and President Francois Mitterrand at a Brussels news conference

Agricultural stabilisers: The cereals sector was the "linchpin" of the discussions, partly because of the alarming projections of the costs of the regime by the early 1990s and partly because being a key animal feedstuff, they affect the price of other commodities supported by the EC.

The EC leaders agreed to set the guarantee threshold or production ceiling at 160m. tonnes for the marketing years 1988/89 to 1991/92 (a key French and German negotiating position and higher than the British figure of 155m).

At the beginning of each marketing year, an additional co-responsibility levy, or production tax, of up to 3 per cent will be charged provisionally, but reimbursed partially or in full if the threshold target has not been overshot.

If the ceiling has been breached, the EC's guaranteed intervention price for the quantity over target will be reduced by 3 per cent a year.

"Small prodncers will be exempted from the basic and from the additional co-responsibility levy, but the decision will be taken by Farm Ministers as part of this year's price package.

The Commission has also been "urged to re-examine the operation of the intervention system and to submit an operation report to the Council...The Commission intends to propose appropriate adjustments to the amount of the monthly cereals supplements as part of its next farm price package proposals".

The annual guarantee thresholds for oilseeds and protein products will be fixed as follows for 1988/89 to 1990/91: rape 4.5m tonnes excluding Spain and Portugal; sunflower seed 2.0m tonnes excluding Spain and Portugal; soya 1.3m tonnes; protein products 3.5m tonnes.

Where these maximum quantities are exceeded, the institutional prices will be reduced by 0.45 per cent for each 1 per cent overshoot in 1988/89 and by 0.5 per cent for each overshoot for the following marketing years.

Set aside: The summit agreed to a mechanism for limiting supply by withdrawing agricultural land from production. Details are much as expected.

Application will be compulsory for member-states, optional for farmers. To qualify, a producer must set aside at least 20 per cent of his arable land for at least five years. Those who set aside 30 per cent will also be exempted from the co-responsibility levy for 20 tonnes of cereals marketed by themselves.

Payments under the scheme will vary from Ecu 100 to Ecu 600 a hectare and and the EC budget's contribution from 15 to 50 per cent. The premium paid to producers will be about 50 per cent less if the arable land is used for fallow grazing or converted to certain types of protein plant production.

A new budget ceiling of Ecu 600m will be set in 1992 for the set-aside scheme and income aids to farmers.

Reagan backing for Mexico on economy

By William Orme in Mazatlan, Mexico

PRESIDENT REAGAN held an unusually supportive four-hour meeting with President Miguel de la Madrid in Mazatlan on Saturday, praising Mexico's effort to liberalise its economy and fight drug trafficking and playing down differences on Central American policy.

The Reagan and de la Madrid administrations "have created dynamic commercial ties that lay the foundation for a stronger and expanding trade relationship" and have "worked together to find positive and creative solutions to a threatening international debt problem," Mr Reagan said.

Diplomats said that in talks with Mr Reagan and Cabinet officers from the two countries, Mr de la Madrid expressed concern about US Congressional initiatives against countries with large bilateral trade surpluses. In 1987 Mexico registered a surplus of more than $6bn with the US.

During the talks the two countries completed a textile accord guaranteeing Mexico 6 per cent yearly increases in its US import quota. In exchange US clothing manufacturers will be allowed to sell up to $240m annually in finished garments within Mexico.

President de la Madrid emphasised the need for "new formulas" to resolve the foreign debt problem but did not specifically request Washington's aid in persuading US banks to participate in Mexico's proposed debt-for-bonds conversion plan, Mr James Baker, US Treasury Secretary, said.

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Win assured for Stroessner in Paraguay poll

BY TIM COONE IN BUENOS AIRES

A PREDICTABLE victory awaits General Alfredo Stroessner and his ruling Colorado party in the general elections held in Paraguay yesterday.

The 75 year-old dictator, now entering his 34th year as president, is not expected to lose control to the two token opposition parties allowed to contest the elections.

At the weekend, Mr Sabino Montanaro, interior Minister, said the general's support "will not fall below 80 percent."

He added, in an interview published in Buenos Aires yesterday, "voting is secret but a Colorado votes publicly. He refuses to go into the private booth and, in front of everybody, he says: "Here is my vote!" The minister also admitted that, in some of the 7,192 polling stations around the country, there are no private booths.

In the last elections, in 1983, the president took 89.6 per cent of the votes. One third of the seats in the 72-member Chamber of Deputies aod the 35-member Senate, were then reserved for the opposition Liberal Party and the Radical Liberal Party. The rest went to the Colorados.

At the weekend, distribution of newspapers from Argentina and Brazil was stopped in the Paraguayan capital of Asunción, and police tear-gassed opposition demonstrators who managed to organise a call for free elections despite tight security controls in the city.

Several hundred people who had been arrested during the previous week for carrying out similar protests were released from prison just before the election.

The four opposition parties not allowed to take part in the elections range from centre-left to centre-right, and are now grouped in what they call the National Agreement. They have been divided over whether to advise their supporters to stay away from polling stations or to leave ballot papers blank.

Abstention is illegal and Gen Stroessner has threatened to punish abstainers.

A moderately high early turnout was evident in the capital. Many voters walked to the polls, cast their ballots and went on to church on a clear, cool summer day.

The only reported protest yesterday occurred in the farming town of Caaguazu, 110 miles east of Asunción, where about 100 members of the Authentic Radical Liberal Party gathered outside a church and denounced the detention of the party president, Mr Domingo Laino. The party said that Mr Laino, who spent Thursday under house arrest, had been detained on his way to the town to keep him from the protest rally. It was peacefully dispersed by police after 15 minutes.

Two of the four hanned parties were formed by dissidents from the traditional Liberal and Colorado parties.

India army kills 12 in Sri Lanka

INDIAN TROOPS killed 12 Tamil rebels in eastern Sri Lanka yesterday, hours after five soldiers died in a land mine blast, military officials and residents said, AP reports from Colombo.

The officials, who cannot be identified under briefing rules, said the violence took place in eastern Batticaloa district, where Indian troops have been conducting search operations since Thursday.

They said there were unconfirmed reports that Indian troops killed 12 Tamil rebels. However, Batticaloa residents, contacted by telephone, said 12 Tamils were killed "in reprisal" for the landmine explosion.

The residents, who spoke on condition of not being identified, said they heard two blasts near Eravur village, 15 km north of Batticaloa, followed by continuous firing.

India sent troops to Sri Lanka under a peace accord aimed at ending the 4-year-old guerrilla war waged by Tamil rebels for a separate homeland.

Meanwhile, residents in Batticaloa said the indefinite curfew in force since Thursday would be lifted for 12 hours on Monday.

Barbara Durr reports on a Maoist challenge to the traditional left

Peru's guerrillas seek power base

AT A POLITICAL rally in Lima, guerrillas with bandanas covering their faces lobbed six small dynamite charges at Senator Jorge del Prado, chief of Peru's Moscow-line Communist Party. Panicked crowds scrambled to escape the explosions, which effectively ended the rally. Miraculously, the only injury was one of the Senator's bodyguards.

The event, which took place during last month's 24-hour national strike, was one sign that Latin America's most ruthless and fanatical guerrilla group, Peru's Maoist-oriented Sendero Luminoso (Shining Path), has made a marked tactical shift. Sendero, which began its armed insurrection among the peasants of the Andean highlands in 1980, is now challenging the legal left for its urban working class constituencies.

The keynote of its challenge was sounded during the national strike, called by the Communist Party-led Confederacion General de Trabajadories del Peru (CGTP), the country's largest labour federation. In a sharp break with its past hermetical behaviour, Sendero called news agencies to to them that it was supporting the national strike.

While the CGTP and the United Left (UL), the left-wing electoral coalition, cooceived of the strike as a protest against the economic policies of President Alan Garcia, Sendero saw an opportunity for intra-left combat. The group has proposed, in a documeot published last month, an alliance not only between workers and peasants but also with small and medium-sized business.

This marks the first time that it has presented a political strategy to take power. Until now, it has concentrated on expanding the guerrilla war.

The only business with which Sendero has a working relationship at the moment is the narcotics trade. Just over a year ago, it moved into Peru's largest coca-growing region and has established itself there. Its modus vivendi with the drugs traffickers, who it charges for the use of airstrips and for other services, may yield up to \$30m a year, according to Mr Raul Gonzalez, an analyst of Sendero.

Commentators in two leading news weeklies concluded that Sendero's performance during the strike showed that it has no base of support among workers. This may, however, to be too final and neat a judgment. The guerrillas have laid the groundwork for their new phase of labour agitation. They have created a union front group called the Movement of Classist Workers (MOTC), are active in organising hotel and Chinese restuarant employees, and allegedly have inflitrated a number of other labour organisations.

The need to freshen its ranks is a key motivation for Sendero's tactical change, according to several analysts. Numbers were depleted by the June 1986 massacre of 250 prison inmates accused of terrorism, and police argue that in the last year and a half they have dismembered a significant part of Sendero Luminoso in the capital. They also report desertions on the rise.

As an example of Sendero's thinning ranks, the police say that the guerrillas they have captured of late are younger, many just 15 to 16 years old.

This helps acount for the police's recent successes. The younger rebels break down quickly under torture, which is routine for terrorism detainees. "They are not ideologically hardened, like the older leaders," said one police source.

But the shift of strategy also has a political edge. Sendero Luminoso's fierce opposition to the Garcia Government and its conatant denunciation of elected left leaders find a certain echo among those fed up with the Government and the often fumbled opposition of the UL.

Sendero is wagering that as Peru's economic crisis sharpens, political disaffection will grow not only with the Government but also with the UL. The vast majority of urban poor are either adherents of the ruling American Popular Revolutionary Alliance (APRA) party or on the left.

Sendero's bid for the constituencies of the UL could foster more of the division that plagues the coalition. The more radical parties have already seen the Robin Hood-style Tupac Amaru Revolutionary Movement, Peru's second most important guerrilla group, edge into their turf. They may feel compelled to radicalise further to avoid losing support. But more extreme positions are likely to bring a collapse of the coalition.

Yet analysts believe that Sendero will have to do more than just wash its face to attract even the radical end of the left's spectrum. Few can tolerate the group's brutality.

Between December and January, the military reported that Sendero was reaponaible for three massacres of nearly 80 peasants. Peru's level of violence has not declined under President Garcia. According to Ernesto Alaysa of the Catholic Church's human rights group, Centro de Estudio y Accion Para la Paz (Ceapaz), "the curve of violence has kept going up." According to Mr Ceapaz's figures, there were 984 deaths because of political violence in 1987, 471 injured and a total of 1,240 terrorist attacks.

The death toll for nearly eight years of guerrilla war is more than 10,000, a sizeable portion of which were killed by the security forces. As Mr Manuel Granados, an analyst of Sendero, remarked: "Given how the army and police operate, they make more Senderistas than anyone."

Moscow in naval clash protest

By Charles Hodgson in Moscow

SOVIET frigates were attempting to "shoulder" two US warships out of Soviet territorial waters when the vessels collided in the Black Sea on Friday, the Communist Party newspaper Pravda reported yesterday.

The Soviet Union has issued a formal protest to the US over the incident, in which the US warships Yorktown and Caron collided with the Soviet frigates Bezzavetny and SKR-6 after ignoring warnings that they had entered Soviet territorial waters.

Pravda said that the aft anti-ship missile launcher and one side of the cruiser Yorktown were damaged, while the Soviet frigate SKR-6 "sustained a small hole above the waterline" in its collision with the destroyer Caron. There were no casualties on either side.

The Pravda report appears to conflict with the statement at the weekend by Rear Admiral Nikolai Markov, who denied that the Soviet vessels had deliberately rammed the US warships and said that the collision had resulted from "dangerous manoeuvres" by the US vessels.

The US navy has carried out an increasing number of operations in the Black Sea.

Jordanian PM flies to Damascus for talks

BY TONY WALKER IN AMMAN

MR ZEID RIFAI, Jordan's Prime Minister, flew to Damascus yesterday for consultations on the latest Middle East peace moves, amid indications that Syrian opposition to a US initiative may be hardening.

Western officials in Amman said a commentary on Damascus Radio rejecting "partial and unilateral deals which contradict the spirit of United Nations resolutions" was the sharpest Syrian comment thus far about the US initiative.

Jordanian officials are sceptical of US peace moves which appear to rest on a revised Camp David formula seeking an accelerated process of autonomy for Palestinians in the West Bank and Gaza Strip.

But Jordan wishes to encourage the US to re-engage in Middle East peace efforts end is understood to be seeking to persuade Syria's leadership to keep an open mind on possibilities.

"If the US wants to activate the Camp David process, it will achieve total failure," Damascus Radio said.

The 1978 Camp David accords, which led to the peace treaty between Egypt and Israel, envisaged a five-year transitional process of antonomy for Palestinians in the West Bank and Gaza, leading to agreement on the final status of the occupied territories.

Talks on the second stage of Camp David collapsed in 1981.

Damascus Radio warned Mr George Schultz, US Secretary of State, who is proposing to visit the Middle East later this month, not to try to reactivate Camp David.

Syria opposed the Camp David process because it involved Egypt in making a separate peace with Israel. The Syrians insist on a comprehensive Middle East peace settlement based on UN Resolutions 242 and 338, which call for Israel's withdrawal to pre-1967 war boundaries.

Mr Farouq al-Sharaa, Syria's Foreign Minister, said that "although the American Administration was talking about a comprehensive settlement, it was in reality thinking about a partial solution". Syria was totally opposed to such a course.

"We in Syria," the minister added, "consider that any solution should be based on Israel's full withdrawal from the occupied Arab territories and the realisation of the national rights of the Palestinian people."

Malaysian king urges support for Mahathir

MALAYSIA'S king yesterday urged his people to support Dr Mahathir Mohamed, who is facing the severest test of his leadership after his dominant party was declared illegal, Reuter reports from Kuala Lumpur.

"Loyalty and co-operation must be extended to the Prime Minister and his Cabinet for peace and harmony . . . to prevent chaos . . . Malays should avoid bickering among themselves," said the king, who normally stays above politics.

A court ruling early this month that the United Malays National Organisation (UMNO) was an illegal society has prompted doubt on the legality of Dr Mahathir's leadership in the 13-party ruling coalition as well as parliament.

The party has been thrown into disarray after Malaysia's first Prime Minister, Tunku Abdul Rahman, announced plans last Monday to set up a new party.

Dr Mahathir yesterday attended a ceremony to receive declarations of support from more than 600 government members of parliament, senators and state-assemblymen.

He assured them he would be able to employ measures to revive UMNO and this included amending the law, but he did not elaborate.

UMNO was ruled illegal because 30 of its branches were not registered ahead of a national party congress last April.

The congress, the most bitter in UMNO's history, narrowly elected Dr Mahathir as leader.

Dr Mahathir also hit out at the 11 UMNO members who initiated the court action, saying he would not bow to pressure to resign.

Aquino urged to resist emergency power calls

BY RICHARD GOURLAY IN MANILA

LEADERS of the Philippine Congress have strongly urged President Corazon Aquino to resist calls by senior officers for her to adopt emergency powers in the fight against communist-led guerrillas.

Mrs Aquino, who has not ruled out emergency powers, said she would first consult Mr Fidel Ramos, the Defence Secretary. Last week he asked Congress to reimpose the death penalty for subversion and to give the army "stronger legal weapons" against the insurgents.

Mr Ramos said at the weekend that he was studying existing emergency laws and would soon give his recommendations to Mrs Aquino.

Reactions have been strong. Mr Ramon Mitra, the House speaker and a close Aquino ally, said there was no justification for such drastic action, while some lawyers said emergency powers would remove the controls which are already increasingly failing to prevent human rights abuses by soldiers.

Field officers fighting against the 19-year-long insurgency by the New People's Army often say their hands are tied by peace-time laws which mean that suspected rebels or sympathisers slip through their hands. Mr Ramos was armed forces chief of staff until he was promoted last month.

Many Filipinos still have vivid memories of martial law under which President Ferdinand Marcos ruled for more than eight years till 1981.

OVERSEAS NEWS

Robert Thomson follows the twists and turnings of an opportunist prince

Sihanouk waits to catch the tide

THE mobile Kampuchean court of Prince Norodom Sihanouk has settled, for the moment, in the old foreign legation district of Peking, and if the peripatetic prince is to be believed, the travelling days are over.

But then the prince is not to be believed. Not that he is a liar, just unpredictable, excitable, inimitable and prone to a change of mind. So his "irreversible, irrevocable" decision to resign as head of the Kampuchean resistance coalition is to be regarded as negotiable.

For the past few days, Chinese leaders have been patting the prince's dog, a Maltese Bichon, and stroking the Sihanouk ego, while one of the coalition partners, Khieu Samphan, the Khmer Rouge leader, has just left after a three-day visit to emphasise to the prince how much the resistance needs him.

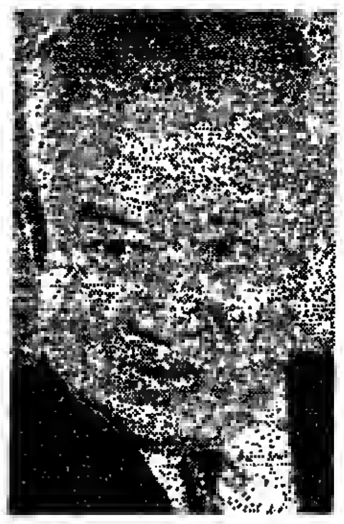
Sihanouk is holding out. He is "musing and contemplating", his secretary says. To understand the meandering of his mind, to put in perspective his resignation, to comprehend his willingness to do business with the Khmer Rouge, which murdered members of his family during the rule of Pol Pot, and to appreciate the present potential for a settlement in Kampuchea, one must go back in time.

If nothing else, the prince has been consistently unpredictable and ever the opportunist. In 1941, the Vichy French installed him as king, presuming that he would take good care of their colonial interests. Instead, he launched the "royal crusade for independence", and ruled Kampuchea from 1953 to 1970, when he was deposed in a coup.

Later, he supported the rise of the Pol Pot-led Khmer Rouge, expecting that his princely prestige would safeguard his family, but the murderous regime turned on him. In late 1978, the Vietnamese invaded Kampuchea, and, shortly after, the Chinese, who had been assisting the Khmer Rouge, attacked Vietnam, while the Soviet Union backed Vietnam, and a complex network of feuds and friendships was formed.

Only now are there signs of movement that could lead to a re-ordering of relationships. The Soviet Union is courting China, Prince Sihanouk is talking to the Vietnamese-backed Heng Samrin regime, and Vietnam, tired of its pariah status, claims to be keen to withdraw its 140,000 or so troops in Kampuchea.

China sees Vietnam's occupation of Kampuchea as the main "obstacle" in the path of "normal" relations between Peking and Moscow. The Soviet leader, Mr Mikhail Gorbachev, has made improved ties with China a priority, snd so has been twisting Vietnam's arm, though not roughly enough to threaten the future of its military bases there. The Chinese stitched together the unlikely democratic coalition in 1982, with Sihanouk at the helm, and the nationalist faction of Sonn San and the Khmer Rouge as his partners. The armies of the three members have battled each other as well as the Vietnamese, and Sonn San, initially reluctant to join, prompted the prince's just announced resignation by calling him a "traitor".



Sihanouk: unpredictable

Sonn San was outraged by the prince's talks with Hun Sen, the premier of the Heng Samrin government, arguing that the two meetings in Paris in recent months gave the Phnom Penh regime undeserved recognition. More importantly, China, Sonn San and the Khmer Rouge fear that the prince will dump them and hitch his ambitions to Heng Samrin.

Prince Sihanouk is uncomfortable in the company of the Khmer Rouge and has little love for Sonn San, but argues that he owes China everything, including "the shirt on my back". However, he is aware that unless the Vietnamese withdraw, any deal with Heng Samrin leaders would not give him real powsr, so he needs Chinese assistance to prise them out.

The coalition is a marriage of convenience. The Khmer Rouge needs the prince to help overcome its international image problem – Pol Pot is still advising troops on the border, and is thought to visit Peking occasionally to see old friends. His bloody approach to reform was partly inspired by Mao Tse-tung's Cultural Revolution, launched in 1966 in an attempt to fashion a superior socialist person and institutionalise revolution.

Prince Sibanouk has sensed that Moscow's enthusiasm for a more comradely relationship with China has provided an opening, and, at 64, probably reckons that if there is a "tide in the affairs of men" and princes, then this is it. His resignation, often threatened, occasionally delivered and always withdrawn, introduces another variable, and will keep the Chinese alert and force all concerned to express support for him.

What next? After a bout of banquet flattery by Khieu Samphan, the prince hinted that his resignation is on the temporary side of permanent. Instead of his assertion that the decision was "definitive", he said the "homage" paid to him has prompted a "period of reflection", which is probably the prelude to a triumphant return.

Chances are that he will then reconsider his decision to cancel future talks with Hun Sen, the "Vietnamese lackey", as he called him after the first round late last year – he warmly embraced the lackey not long after at the second round. And chances are that Hun Sen will make the prince a tempting offer to return to Kampuchea as head of state, or some such.

The prince will turn down the offer, insist that the Vietnamese join the negotiations, and then perhaps invite the Khmer Rouge and nationalists to the negotiating table. Whether the feuding factions will be able to share the same room and whether the Vietnamese are serious about withdrawing their forces are the tough questions.

Prince Sihanouk will hsve plenty of time to contemplate the possible outcomes, as the next atop for his Kampuchean caravan is Pyongyang, the North Korean capital, where he will renew another of his curious connections by celebrating the birthday of the great leader, Kim il Sung, in early April. The prince and the great leader go back a long way.

Memory chip prices up sharply

By Louise Kehoe in San Francisco

A SERIOUS worldwide shortage of vital computer memory chips is causing sharp rises in chip prices and slowing computer production at big manufacturers.

The problem is particularly acute in the US and Europe, according to industry executives. Purchasing managers for major US computer companies say they are unable to obtain needed supplies of dynamic random access memory (Dram) chips, the data storage devices used in all types of computers.

Drams have been in limited supply in the US for several months but the shortage has spread and become far more severe in recent weeks, industry insiders say. According to Dataquest, the US market research company, spot prices for 256K Drams have risen from around $3.25 per unit three weeks ago to an average of $4.50 and as high as $7 over the past few days.

It is only 18 months, ironically, since the US Government accused Japanese memory chip makers of dumping Drams in the US "below fair value". Today, the same chips can only be had for two to three times the "fair market value" calculated by the US Department of Commerce.

The shortage has been caused by a combination of higher than expected demand and supply problems, according to industry analysts. Surging sales of personal computers and computer workstations have produced a significant rise in demand.

This increase has, however, coincided with a production transition among chipmakers, from the established 256K Dram to the next generation product, a Dram capable of storing one megabit, or four times as much data. Japanese chipmakers, which are the major suppliers of Drams, are switching production.

The transition has not, however, gone smoothly, according to industry analysts.

Exacerbating the supply problems are the residual effects of Japanese government production limits set last year in response to US trade friction. Although Japan's Ministry of International Trade and Industry lifted limits in the fourth quarter of last year, chip producers have been unable to raise production fast enough.

Hong Kong banks lift prime lending rate by 3/4 point

BY DAVID DODWELL IN HONG KONG

BANKS in Hong Kong are to raise their interest rates for the first time in six months after an easing of speculative pressure against the local currency in the wake of better-than-expected US trade figures for December.

The move dissipates fears that the Hong Kong government would impose negative interest rates in March. This has been threatened because speculation on an imminent revaluation of the Hong Kong dollar has put strain on the link rate system by which the local unit is aligned to the US dollar at a rate of HK$7.80 to each US unit.

The Hong Kong Association of Banks announced on Saturday, shortly after release of the US trade figures, that the local prime lending rate would be raised by 3/4 of a percentage point to 6.0 per cent with effect from today.

Pressure for a revaluation, which has had backing from the US Treasury, has been heightened by suggestions that Hong Kong was deriving an unfair trading advantage because its currency was being maintained at an artificially low level.

US officials and their counterparts in the Organisation of Economic Co-operation and Development pointed to growth of almost 27 per cent in export earnings in 1987, and a bilateral trade surplus with the US of HK$73bn, to underpin suggestions that the currency ought to be allowed to float upwards.

The heat came off the local currency over the weekend in part because of a strengthening of the US dollar in the wake of the trade figures and because of trade data released on Thursday by Hong Kong's census and statistics department. These showed a rise in US exports to Hong Kong of 90 per cent between December 1986 and December 1987.

Hawke signals cuts in taxes

BY CHRIS SHERWELL IN SYDNEY

CUTS in Australia's corporate tax and probably personal tax rates were clearly signalled yesterday by Mr Bob Hawke, the Prime Minister, and Senator John Button, Industry Minister.

Announcement of the corporate tax changes will come in the Government's "mini-budget" in May, they indicated, and is likely to be accompanied or followed by other changes in tariffs and de-regulation.

Confirmation of the prospective corporate tax cut follows New Zealand's announcement last week of a cut in corporate tax from 48 per cent to 28 per cent from April. Australia's rate is currently 49 per cent.

A change in corporate tax has been expected since Mr Paul Keating, federal Treasurer, announced a review last September. At that time, it was made clear cuts would have to be paid for through adjustments to existing concessions for business.

Other policy changes will be the result of continuing work by the Cabinet's structural adjustment committee, which has been given added importance by last October's share market collapse.

Mr Hawke said yesterday that changes in corporate tax would affect the personal tax regime, and any cuts would involve lower as well as higher income earners.

Mr Button, in a separate interview, said changes in corporate taxes would not be dramatic. Once concessions were taken into account, he said, Australia's tax structure already compared favourably with countries such as Canada and the US.

Likewise, direct comparisons with New Zealand's new rate had to be treated with caution.

On the question of tariffs, Mr Button said there was now a case for a general reduction. But he added that cuts would hurt government revenues and strain the current account deficit. No decision had yet been made.

The two ministers' comments come at a delicate moment politically. The Labor Government recently lost a safe seat in a by-election and suffered the resignation of its third minister in two months.

An election in the key state of New South Wales is expected next month, and the Labor state government is under pressure from the opposition Liberals.

Party activists are worried that Labor has lost touch with its traditional followers - a suggestion Mr Hawke denies.

SHIPPING REPORT

Gulf tanker market rates fail to pick up

BY KEVIN BROWN, TRANSPORT CORRESPONDENT

DEMAND for tanker tonnage was brisk in the western hemisphere last week but brokers said business in the Gulf failed to pick up from the previous low levels.

The strength of the dry cargo market continued to draw combination tonnage away from the tanker market but the effect was limited largely to the Mediterranean, North Sea and West Africa.

Galbraith's, the London brokers, said a London charterer paid Worldscale 97.5 for an 80,000 tons cargo from Libya to Europe and a 74,000 tons cargo from the North Sea was fixed in excess of Worldscale 120 for the inter-European trade.

West Africa was said to be one of the most improved markets and a large number of charterers were reported to be seeking February cover.

The rate for tankers of around 130,000 tons deadweight for trips to the US and Europe was said to be around the mid-to-high Worldscale 60s.

There was less excitement in the Middle East Gulf, despite reports early in the week that Saudi Arabia had chartered three VLCCs for its own account. The rumour failed to raise rates and Texaco later secured cover for a cargo of 275,000 tons from the Gulf to the West at Worldscale 29.

Rates for shorter voyages remained depressed: Ssangyong was able to fix 250,000 tons from the Gulf to South Korea at Worldscale 31.5 and Exxon fixed 245,000 tons to the US Gulf at Worldscale 33.

Brokers said there were virtually no inquiries for vessels of the 1m barrel size.

UK, Nigeria in air pact

BY MICHAEL HOLMAN IN LAGOS

NIGERIA and Britain have negotiated a last-minute interim air services agreement, averting a threatened suspension of flights between the two countries, which would have taken effect from midnight last night.

Government officials and representatives of Nigeria Airways and British Caledonian agreed to extend the existing contract until the end of next month, and will hold further talks before it expires.

There is no evidence that the two sides made significant progress during five days' talks towards resolving the fundamental issue which led the Nigerian government to serve notice last February that it wished to renegotiate the agreement.

Nigeria argues that British Caledonian has enjoyed a commercial advantage by having passenger rights at the northern Nigerian city of Kano, as well as Lagos.

WORLD ECONOMIC INDICATORS

TRADE STATISTICS

		Dec.'87	Nov.'87	Oct.'87	Dec.'86
UK (£m)	exports	6.685	6.951	6.867	6.477
	imports	8.867	8.146	7.749	7.388
	balance	-1.182	-1.195	-0.882	-0.911
Japan (US$bn)	exports	20.044	19.669	18.995	16.864
	imports	11.504	12.220	11.808	8.149
	balance	+8.540	+7.449	+7.187	+8.715
USA($bn)	exports	24.801	23.799	21.752	18.523
	imports	37.003	37.016	39.383	31.255
	balance	-12.202	-13.217	-17.631	-12.732
W. Germany (DMbn)	exports	45.00	44.76	45.80	43.15
	imports	34.31	34.47	37.22	32.95
	balance	+10.89	+10.29	+8.58	+10.20
France (FFrbn)	exports	81.60	79.59	74.96	71.39
	imports	82.48	80.27	79.83	69.12
	balance	-0.88	-0.68	-4.87	+2.27

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David Marsh on the shift in attitudes behind West Germany's new Ostpolitik

Changes in the magnetic pull of East and West

ANDREAS MEYER-LANDRUT, West Germany's ambassador to the Soviet Union, is a popular man in Moscow. In the first interview a West German ambassador has given to the daily newspaper Pravda, he called recently for liberalisation of Western controls on technology flows to the Eastern bloc.

Meanwhile in West Germany, the US ambassador was carniog the public disapproval of the Bonn Government. Mr Richard Burt's faux pas was to accuse the country of "chauviniam" in its economic policies.

The two examples help to illustrate the shifts under way in Bonn's post-war relations with the superpowers. Despite the good working relationship between US President Ronald Reagan and Mr Helmut Kohl, the West German Chancellor, the mood of impending change will overshadow their talks in Washingtoo at the end of this week.

The force field around the Federal Republic has remained more or less unchanged since the country was given its sovereignty (in exchange for a firm bond to the West) in 1955. Now, however, it is beginning to be disturbed by US-Soviet disarmament moves, Mr Mikhail Gorbachev's drive towards domestic reform and worries about a gradual weakening of the US's defence relationship with western Europe.

Part of the response is for the centre-right coalition in Bonn to start building bridges with the East.

This new Ostpolitik opens up opportunities for economic, technological and

Mr Genscher

political co-operation, and for further advances in arms control. But it does carry risks. Gaps are appearing between West Germany and other members of Nato, above all the US, Britain and France.

A senior Western diplomat in Bonn puts it this way: "West Germany is poised for quite a substantial step forward in 1988. This is a potential danger for the Alliance. Nato is boring, not new and costs a lot uf money – while in the East, a new dawn appears to be breaking."

Changes in the international balance have reminded West Germany that its natural interests and concerns overlap with those of both East and West.

Its economic, political and cultural ties with the West are incomparably greater than in the 1950s. But it remains constitutionally pledged to seek reunification (in some form) with the eastern part of the divided nation.

At the same time, a more self-assertive West Germany also acknowledges that its destiny is no longer so closely tied to the US, partly because America's financial problems are forcing it to re-examine its security priorities.

During the Cold War there was no qualification of West Germany's West-faciog stance. Now, however, the classic "in-the-middle" dilemma, which dogged German history for centuries, is beginning to resurface.

This gives rise to inevitable pressures. When Bonn tries to alter the European status quo, for example through moves to forge links with East Germany or by intensifying military co-operation with France, anxieties mount – albeit for opposing reasons – among its neighbours in both East and West. But when changing circumstances appear to leave West Germany behind – as has been threatened over nuclear disarmament – it becomes increasingly worried that it is being squeezed by uncontrollable external forces.

The predicament was underlined by the blunt warnings on arms control from Mr Frank Carlucci, the US Defence Secretary, speaking in Munich last weekend. He warned that if Nato failed to modernise short-range nuclear weapons during the 1990s, a step hotly opposed by both Left and Right in the Federal Republic, the US would have to consider withdrawing troops from Europe.

Meanwhile, Moscow has its eye on the long-term denuclearisation of Europe, and so is doing its best to exploit differences between Bonn and the rest of the Alliance over the next steps towards disarmament.

The Soviet Union has some strong cards. As the chart shows, West German opinion polls consistently show Mr Gorbachev to be more popular than President Reagan – eveo though, as a nation, the US is trusted more than the Soviet Union.

"Gorbachev seems to speak of peace, Reagan of war. This does not mean that Reagan wants war. But he is talking about concepts adapted to American minds, which to European ears can sound disastrous," says Professor Eberhard Schulz, a Bonn-based Sovietologist.

Following December's US-Soviet agreement to scrap medium-range nuclear missiles, West Germany has become increasingly nervous about its geographical exposure to the remaining short-range Soviet missiles.

Moscow has praised West Germany for wishing to further reduce nuclear arsenals, and castigated the modernisation plans as "dangerous". But the US, Britain and France believe that the short-range arsenals need to be upgraded to compensate for the Warsaw Pact's oumerical superiority in nuclear weapons with a range of less than 500km range and in conventional forces.

In West Germany, Mr Hans-Dietrich Genscher, the veteran Free Democratic Party (FDP) Foreign Minister and a leading proponent of the new Ostpolitik, has come out strongly against the short-range modernisation proposals. But the most vitriolic opposition has come from Chancellor Kohl's cooservative supporters, who these days show a distrust of US objectives which used to be confined to the left.

Particular alarm has been caused on the right by the recent US report, Discriminate Deterrence, by a bipartisan panel of defence specialists, which suggests that the US is backing away from the pledge to use its strategic ouclear weapons to defend Europe.

A left-right consensus also exists in another area of potential discord with Western allies: trade and technology.

The Federal Republic is the Eastern bloc's largest trade partner in the West. Bonn has been in the vanguard of European countries pressing for a liberalisation of controls maintained by Cocom, the Paris-based organisation which tries to prevent Communist countries from buying technology that could be used for military purposes.

The US has recently agreed to relax some restrictions on lower technology goods, but wants to put higher fences around genuinely sensitive technologies. The Reagan Administration has made it clear that the Federal Republic should try to tighten up the implemeotation of technology transfer rules and bring in tougher penalties for breaches – a view the Kohl Government rejects.

West Germany's trade with Communist countries last year represented about 4.5 per cent of its total foreign trade. Expanding business links is seen not only as a source of profit, but also as a means of underpinning political and economic reforms in the Eastern bloc.

Mr Franz Josef Strauss, the ultra-cooservative Bavarian Prime Minister, who had a warm reception in the Kremlin in December, has spoken of a "new political era which will be ruled not by Mars, the god of war, but by Mercury, the god of trade and business".

Mr Lothar Spaeth, the Prime Mloister of Baden-Wuerttemberg, last week was given a similarly warm reception in Moscow. He clinched a number of jolot venture agreements including one for a Baden-Wuerttemberg company to help the Russians convert former SS-20 missile launchers into mounts for cranes.

Mr Shevardnadze

The objections of many West Germans to technology controls are summed op by the philosopher Professor Carl Friedrich von Weizsaecker, adviser to the Social Democratic Party (SPD) and elder brother of the West German President: "The political situation would be better if technology were allowed to flow more freely," he says. "Of course, if we think that the future consists of war, then we should indeed try to hinder technology flows. But that is what we are trying to avoid."

> **'Nato is boring and costs a lot – while in the East, a new dawn appears'**

West Germany understands only too well that the division of Europe has given it a peculiar, schizophrenic perspective on the present internatiooal shifts. An unwritten law in Bonn, and in the rest of the Alliance, is never to allow circumstances to develop under which the Federal Republic would be faced with a straight choice between East and West.

Bono therefore maintains that the present Ostpolitik is nothing more than carrying forward the policy, started in the early 1970s, of normalising ties with the East. West Germany repeatedly rejects any suggestion of a *Sonderweg* (special path) in relations with the East – a possibility which haunts the Allies.

"We are marching at the front, but not out of line," says a senior Foreign Ministry official. "The Federal Republic is not for sale," Mr Kohl said recently, scotching for the umpteenth time any idea that West Germany would swap its place in the Western alliance for reunification with East Germany.

Similarly, Bonn is trying to head off anxiety that its enthusiasm for the European Community is flagging. One important test will be the rate of progress on agricultural reform during its six-month presidency of the EC.

Officials are candid about West Germany's psychological dilemma. For instance, France's motives for supporting intensified bilateral military co-operation, as in the joint Defence Council, are put down in Bonn to worries about a possible German drift towards neutralism. Officials say the fear is overdone, but they admit the possibility exists – oot least because of 'dissatisfaction about the division of Germany.

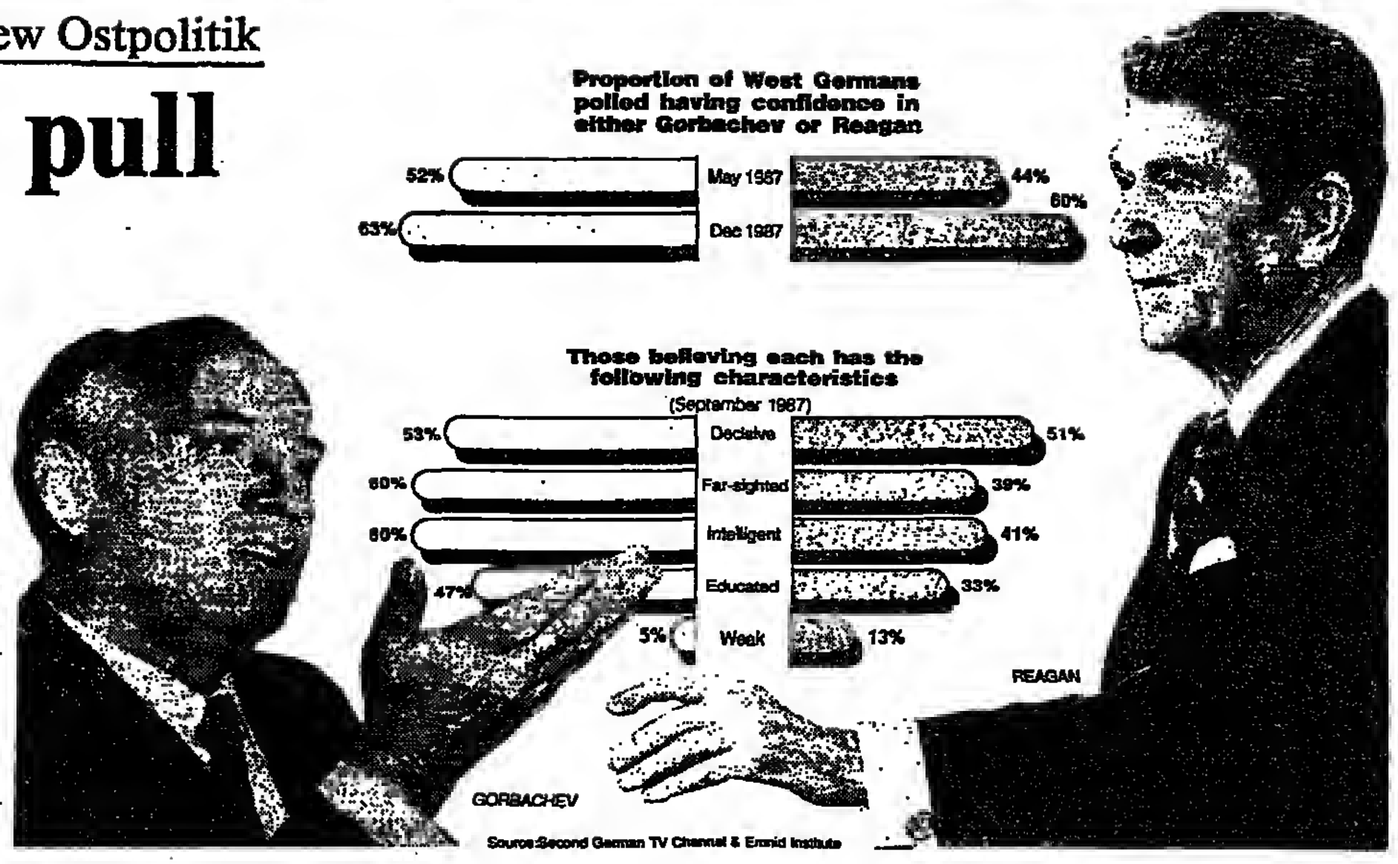
"Reunificatioo is not on the agenda at the moment – it would lead to instability and the danger of a neutralised Germany," says one senior figure close to Chancellor Kohl. "But," he adds in the next breath, "this division is so unnatural."

The feeling of irritation is growing in Bonn that other Western countries do not take seriously the problems faced by a divided nation.

One official says it would be dangerous for West Germany's allies to expect the Federal Republic to accept one part of post-war Western values, in the form of parliamentary democracy, while being denied the rest: self-determination for the other half of Germany. That could lead to rising demands for "national solutions", he says darkly.

Rapprochement with East Germany has led to a marked increase in travel between the two countries over the past 12 months. They have found a common interest in damping down the heat generated by the latest wave of arrests in East Berlin and subsequent expulsions of East German dissidents.

However, as Mr Guenter Gaus, Bonn's long-time representative (ambassador) in East Berlin under the SPD, points out, East and West Germany can only improve ties if their allies do not become suspicious that they are trying to break away from their respective camps.



UK NEWS

City firms risk missing registration deadline

BY RICHARD WATERS AND CLIVE WOLMAN

MEMBERS OF the public will have no guarantee when the Financial Services Act comes into force in April that they are investing through firms which have met the requirements of the new, tougher investor protection regime in the City of London.

In some cases this uncertainty will extend to the end of the year, nine months after the official introduction of the much-delayed system.

The uncertainty is caused by bottlenecks at many of the self-regulating organisations (SROs) which have been set up to put the regime into effect. A flood of late applications from investment businesses has stretched the resources of these bodies, with many more applications expected in the next two weeks.

Any applications made before February 27 are guaranteed provisional authorisation in April, even if the vetting has not been completed by then. SROs like the Investment Managers Regulatory Organisation (IMRO) estimate that it will then take to the end of the year to vet all the firms and decide whether or not they should be authorised.

Firms missing the deadline will almost certainly not have their applications processed by April;they will have to cease trading or face prosecution.

Sir Kenneth Berrill, chairman of the Securities and Investments Board, which is overseeing the new system, yesterday condemned the "alarming level of what seems to be dangerously misplaced complacency throughout the industry." This was indicated, he said, by the fact that so many firms had failed to submit an application only 12 days before the deadline.


Sir Kenneth Berrill: alarming level of complacency

"A substantial proportion of the industry would seem to have convinced itself that authorisation is an optional extra or that there is no urgency about the matter," Sir Kenneth said.

While SROs expect applications from a further 2,600 or so investment firms, the SIB believes that many more firms ought to be applying.

Sir Kenneth also outlined several detailed measures which emphasise the strictness with which the new regime will be enforced.

All applications must have been submitted by midnight on Friday, February 26. In cases of doubt over postal applications, the date on the postmark will taken as evidence. But in case the postmark is illegible, last-minute applicants are advised to obtain proof of posting from the post office. The offices of the SROs and the SIB will be open until midnight February 26 and staff will date-stamp documents delivered by hand that night.

Last minute applications which are incomplete or incorrect may be regarded as not having been made, thus creating the risk that the firm will be forced out of business.

The SIB also confirmed yesterday that the Life Assurance and Unit Trust Organisation (LAUTRO) will not receive recognition as an SRO before February 27.

The reason is its failure so far to produce a rulebook acceptable to the SIB and the Office of Fair Trading. Any firms who would have relied exclusively on LAUTRO for interim authorisation are now being advised to apply directly to the SIB. The only other SRO which has yet to receive recognition, the Securities Association (TSA), is expected to do so before February 27.

Rail planners seek backing for Midlands metro link

BY RICHARD TOMKINS, MIDLANDS CORRESPONDENT

TRANSPORT PLANNERS in the West Midlands of England will tomorrow unveil detailed proposals for the first phase of a rapid transit railway system which is eventually intended to comprise more than 100 miles of route in Birmingham and its industrial hinterland.

The West Midlands Passenger Transport Authority is asking district councils in the area to back its plans for an initial 12½ mile link between Birmingham and Wolverhampton at a cost of £60m.

This first link would follow the disused Great Western Railway route between Birmingham Snow Hill and Wolverhampton Low Level stations, running through the industrial and residential areas of West Bromwich, Wednesbury and Bilston.

The tram-like vehicles would be electrically powered and run on standard gauge tracks. Stops would be frequent but high acceleration and deceleration would trim journey times.

The first phase is intended to form part of a comprehensive Midland Metro network forecast to cost £800m to build over the next 10 to 20 years. Some routes would run along the central reservations of highways and occasionally share road space with other traffic.

J. Henry Schroder Wagg, the merchant bank, has been appointed financial adviser to the project. It is drawing up proposals for joint funding of the first phase by the public and private sectors.

Initially, 50 per cent of the Birmingham-Wolverhampton line was expected to be financed by the European Community's Regional Development Fund, a quarter through government grants, and the rest through the private sector. However, the sponsors believe the scope for property investment alongside the line will increase private-sector enthusiasm for the project.

Air traffic staff 'no confidence' in chief

By Mark Gapper, Labour Staff

AIR TRAFFIC controllers yesterday passed a motion of no confidence in the head of their service, and demanded operational reforms.

Their action comes after a spate of near-collisions between passenger aircraft in UK air space.

The controllers' branch of the IPCS civil servants' union voted to seek talks with Mr Paul Channon, Transport Secretary, to discuss their proposals, which include an increase in civilian airspace and the independent investigation of mid-air incidents.

The branch, which represents most of Britain's 1,600 controllers, passed a motion of no confidence in Mr Keith Mack, head of national air traffic control services, at its annual conference in Stockport, Greater Manchester, claiming that he had refused to meet them to discuss grievances.

The latest publicly disclosed near-miss in British air space occurred earlier this month, when a British Airways TriStar and a Bulgarian Tupolev Tu-154 came within 300 metres of colliding over the Kent coast.

Mr Bill Brett, IPCS assistant general secretary, said controllers believed that the British control system was becoming overstretched, and faced the prospect of 200 more aircraft movements at Heathrow (London) and Gatwick (south of London) this summer.

He said that it was possible for agreement to be reached with military authorities for a transfer of under-used airspace to the civilians sector to reduce overcrowding, particularly around airports in the South east of England.

The Civil Aviation Authority said that it had "complete confidence" in Mr Mack.

A new system allowing controllers to report incident directly to a CAA unit was being introduced, and it accepted that all of them should be thoroughly investigated.

The CAA added that constraints were not caused "predominantly" by military air space, so capacity problems would not be resolved by removing it.

The Department of Transport said it could not comment until it had been approached by the union.

Dollar weakness hits earnings at MF Industrial

BY NICK GARNETT

A FURTHER example of the impact of the dollar's weakness on British-based exporters to North America emerged yesterday when MF Industrial, the industrial machinery maker, announced substantially increased production but poor profits.

The business, based at Trafford Park near Manchester, said it was looking to make a small reduction in its 850-strong workforce and was reviewing its model line-up.

MF is the sole worldwide supplier of a range of equipment, including backhoe and tractor loaders, within the Canadian Varity group, formerly Massey-Ferguson.

Last year, MF raised its unit output by almost 10 per cent on 1986. Production in the last quarter of the financial year, ending on January 31, was a record and figures for the month of January were 20 per cent above the previous one-month high.

Its production of 4,600 units included 3,800 complete vehicles, the rest being drive trains for other equipment makers.

The company expressed satisfaction with the figures and attributed part of the recent surge in sales to a new model of backhoe loader – a tractor-type vehicle with a bucket at the front and digger at the back.

However, Mr Tony Johnson, MF marketing manager, said the operation was only just in profit. He said: "We are not making anything like the profit we would like to see."

About 30 per cent of total output was exported to North America, down from 40 per cent in 1986, and of its production of just under 2,500 backhoes, 16 per cent were exported to the US.

Although the total operation's unit output was up by almost 10 per cent, MF's sales increased by just 7 per cent. Mr Johnson said part of the reason was the dollar's weakness and MF could do little to avoid the consequences, although it was looking for markets outside North America.

The company has also been affected by the battle between J.C. Bamford and Caterpillar of the US in the UK backhoe market.

A combination of Caterpillar aggression and JCB's reluctance to give up market share has resulted in a fierce price war where sale prices can be as much as 25 per cent below list prices.

Mr Johnson said that partly as a consequence of that, MF had been exploiting other markets. Its sales in France last year accounted for 17 per cent of its backhoe production, about the same as the UK.

Interest rate helps lift National Savings funds

BY CLIVE WOLMAN

THE NET contribution to government funding by National Savings rose further last month to an estimated £287.2m, including accrued interest.

The main factors appear to be the lower rates of interest that were on offer from competing savings media, in particular the banks and building societies, and the enhanced popularity of secure homes for savings in the aftermath of the October stock market crash.

In October, for the first time, National Savings made a negative contribution to state funding. The withdrawals exceeded the deposits by such a margin that even the interest accruing on the money left in was not enough to make up for the shortfall.

Since then, National Savings has recovered strongly. In December, the net contribution to government funding rose to £164m. In January, deposits exceeded withdrawals by £199.6m, while the contribution from accrued interest that was not paid out was £80.7m.

The largest net contributions in January came from Income Bonds with £136.1m and the Investment Account with £135.8m. Those two accounts are attractive for basic-rate taxpayers seeking relatively easy access to their money.

There were deficits of £28.4m on fixed-interest Savings Certificates, £12.3m on index-linked Savings Certificates and £400,000 on Indexed-Income Bonds. Total investment in National Savings products stands at just under £36bn, compared with £33.7bn at the end of January 1987.

Clyde submarine 'faulty'

BY NICK GARNETT

AN ELECTRICAL fault on the nuclear submarine Resolution while the boat was docked at Faslane in the Firth of Clyde was confirmed yesterday by the Ministry of Defence.

The ministry said the incident, on January 26, was minor.

It declined to confirm reports that the electrical malfunction had temporarily shut off the cooling system for the submarine's nuclear reactor, causing a potentially hazardous situation.

The ministry denied that a member of Resolution's 147-man crew had been scrubbed down over a 24-hour period with special detergent and that radiation-detection vans had been brought on to the submarine base.

Period of shake-outs forecast in retailing

By Christopher Parkes, Consumer Industries Editor

BRITISH RETAILING is in for another five-year bout of shake-outs, rationalisation and consolidation, according to business forecaster Stanliand Hall Associates.

The industry will also experience a resurgence of some bad old habits such as price cutting, according to the company's latest forecasts, prepared by Mr Jan de Somogyi, former economic adviser to Marks and Spencer, and Mr Richard Hall.

The increasingly saturated food trade, dominated by five leading retail chains with a further 10 smaller groups yet to be absorbed or repositioned, will be particularly affected.

Supermarket groups' prospects are also overshadowed by the "vast, under-utilised" resources of the co-operative societies, under-exploited specialist food shops and the growth of convenience stores.

The result, Stanliand Hall suggests, will be further concentration, the exchange of property portfolios, disposal of stores under 10,000 sq ft, and diversification into specialist food and non-food businesses.

Price discounting will be encouraged in retailing by over-capacity, which is already having an effect in some sectors. The authors point to the household goods trade and the practice of starting winter and summer sales earlier and leaving them running for longer.

Still, British retailing is profitable enough to prove attractive to overseas competitors. The forecast says the next five years may see Australians and consortia from the Far and Middle East trying to move in.

Recent retail sales growth will continue, averaging 7.5 per cent a year from 1986 to 1993, the forecasts show. Large grocers are expected to do better than average, with growth of 10 per cent a year and a market share of total retail sales rising from 25.2 per cent in 1986 to 27.7 per cent by 1993.

Florists, do-it-yourself outlets, chemists, toy and hobby shops, mail order and electrical specialists will also do well.

Lower growth than average is forecast for specialist carpet retailers, booksellers, off licences and confectioners, tobacconists and newsagents.

Retailing in the UK to 1993. Stanliand Hall Associates, PO Box 643, Alderbury House, Upton Park, Slough, SL1 2UJ. £96.

Brick maker's profits treble

GEORGE ARMITAGE, the private brick maker, which was recently subject to an agreed bid from Hanson, has reported a 193 per cent increase in pre-tax profits to £5.86m in the year to the end of December 1987.

Turnover was up by 51.5 per cent to £23.023m. Hanson's bid lapsed last week when it was referred to the Monopolies and Mergers Commission.

Anthony Moreton reports on the start of an £18m conference and office complex

Putting Cardiff on the world trade map

AMID THE Edwardian splendour of Cardiff's City Hall, former heavyweight boxer Mr George Walker will tomorrow morning sign papers on behalf of his Brent Walker group that will bring a world trade centre to Cardiff by the middle of 1990.

The project, announced last year, is the product of a plan put forward by a South Wales firm of architects, Module 2, which has previously co-operated with the growing leisure company in developments on Brighton's Marina and Southend's Kursaal.

The £18m world trade centre in Cardiff, which will include a 120-bed hotel costing £4.2m, a 5,000-seat conference centre, offices and an exhibition hall, will be only the second in Britain, joining the London one at Tower Bridge.

As such it will link Cardiff, and Wales's business as a whole, into an international nexus through its connections with the world trade centre organisation, which co-ordinates operations in New York, Montreal and other key cities.

The Government was persuaded of the development's benefits when Module 2 made its suggestion and put up £3.25m in urban development grant towards the cost.

The city of Cardiff also saw merits in the scheme. It would not only fill an open space to the south of the shopping centre but also bring a much needed, if medium-sized, hotel to the city and help to provide a link with the redevelopment that is taking place in its docklands.

The Cardiff Bay Development Corporation, a quango set up by the Government, is in the early stages of regenerating 2,700 acres of what was once one of the most important ports in Britain but has become, as trade has shifted and shipping patterns changed, a derelict eyesore.

Development within the docklands, upgrading of the retail heart of the city – already one of the six most important centres in Britain outside London – and the building of a trade centre will bring a new dimension to Cardiff, making it, according to Mr Geoffrey Inkin, chairman of the corporation, a true city of the 21st century.

The trade centre is crucial to these changes. The 5,000-seat hall within the complex will allow the Welsh capital to break into a conference market that was dominated by Blackpool and Brighton for decades and has more recently been joined by Harrogate, Bournemouth and London.

It will also offer an exhibition hall venue capable of competing with the Brighton Centre and Earl's Court and Olympia in London, although it will not be anywhere near the size of Birmingham's National Exhibition Centre.

Sports events, such as the tennis competitions which now go to Brighton or the Albert Hall in London, will also come within Cardiff's sights.

George Walker: Expanding out of leisure activities

For Brent Walker, the plan takes the company out of its heavy dependence on London and the Home Counties. Mr Geoffrey Aquilina, Brent Walker's finance director, who will be in Cardiff for tomorrow's signing, says: "Most of our activities are in the south and south-east of England. Now we are moving to the south-west and into Wales. Cardiff is a most attractive city, not only in what it is but in what it is doing."

For the group this is not just a move into a new part of Britain but also an extension of its activities, which have been heavily biased on the side of leisure activities. The company, which had a turnover of £32.7m last year, is the product of unusual beginnings and owes much to its chairman, Mr Walker.

Both he and his brother Billy were boxers. George was good but Billy was better, being the handsome heavyweight who all but became British champion. Realising he was not going to go all the way, and astutely managed by his brother, Billy took his winnings and invested them, with George, first in garages and then in a small chain of eating houses in the City known as Billy's Baked Potato.

Business and Billy were not ring mates and he retired to Jersey to enjoy his winnings and earnings, leaving the small company to his ambitious brother.

In 1966 the baked potato chain was sold for £80,000 and the Tower Restaurant at the Tower of London bought. From there, George moved into Hackney and Hendon greyhounds and then took a quarter stake in the Brent Cross shopping development in north London.

The group is now in the hotel business in a small way (Bath and Chelmsford), leisure interests in a much bigger way (Brighton Marina, Basildon Astradome), and in films (Goldcrest).

Last September Brent Walker paid £90m for London's Trocadero shopping and leisure complex in the heart of Piccadilly and three months later sold it for £100m to Walker Power, a company in which Brent Walker has a half stake.

To finance the Cardiff deal, Brent Walker last year raised £35m in a rights issue.

To break even on the world trade centre, the exhibition side of the business will have to be occupied for about 60 per cent of the time.

That is a tall order in a city that lacks hotels. Apart from the one Brent Walker is erecting there is a Holiday Inn, also part funded through an urban development grant, a Crest, and four older city-centre ones.

Those are insufficient to cater for the sort of conferences that might use the centre, especially the internationally mobile ones. But Cardiff is ambitious. As part of its plans to become a truly international city it is making efforts to attract the 1994 Commonwealth Games.

Hotel groups are already talking to Cardiff Bay's planning officers and new restaurants are mushrooming. The theatre is being rebuilt, again with the help of an urban grant, and there is talk of a centre for the performing arts within the rebuilt docklands to rival Sydney's famous opera house and be a worthy home for the internationally recognised Welsh National Opera Company.

Slower retail sales growth likely

BY MICHAEL PROWSE

AFTER AN unexpectedly buoyant January, British retailers are expecting a modest reduction in sales growth during this month. The slightly wesker tone in high street sales is noted in the latest Confederation of British Industry/Financial Times survey of distributive trades, published today.

Commenting on the survey, Mr Nigel Wittaker, chairman of the CBI's distributive trades panel, said the underlying pace of growth was moderating even though consumers' expenditure did not appear to have been much affected by last autumn's stock market crash. A slowdown at the retail level is consistent with macroeconomic forecasts of slacker growth during 1988.

The survey indicates, however, that high street trade was more vigorous in January than previously expected. The balance of retailers reporting an increase in sales volume compared with a year ago stood at 67 per cent. This contrasts with a balance of only 48 per cent in December and a forecast for January of 40 per cent.

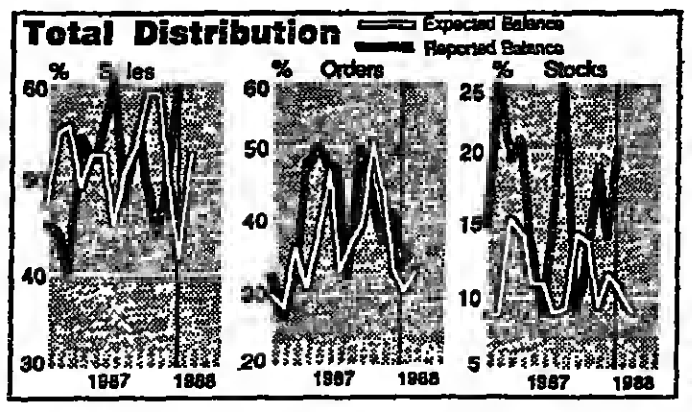
Last month's apparent buoyancy, however, has to be seen in the context of unusually weak sales in January 1987, when the weather was bad.

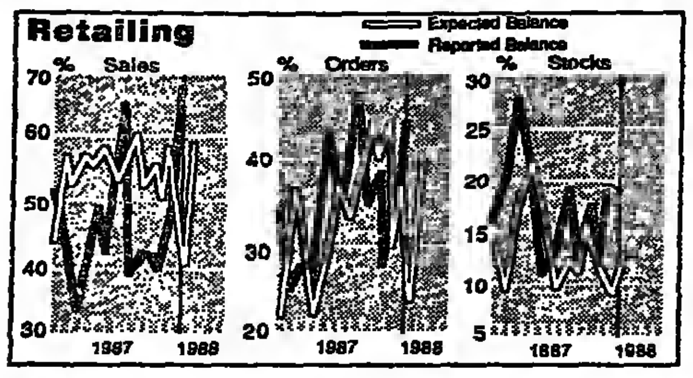
Statistics for February seem to point unequivocally to slackening growth, with a balance of only 58 per cent of retailers forecasting higher sales volume than a year ago. Retailers of durable household goods, grocers and chemists were most optimistic about sales.

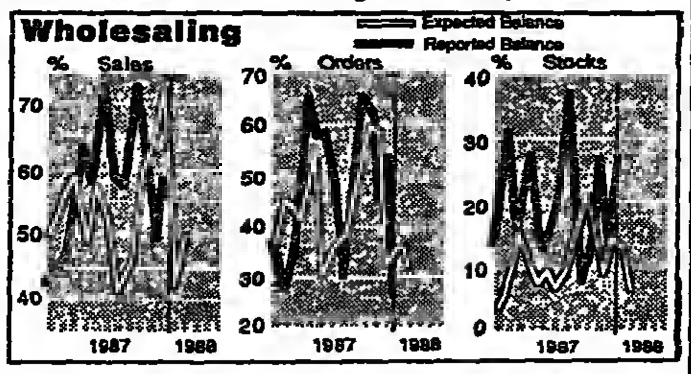
The picture is much the same in the wholesale trade. Sales growth was better than expected in January, although less impressive than in December. The balance of respondents reporting higher sales in January fell from 58 to 55 per cent.

A further slight deceleration is forecast for February with the balance of companies questioned expecting an increase in sales falling to 51 per cent. The most buoyant sectors were food and drink wholesaling and the supply of electrical materials.

Motor traders' sales volume, however, exceeded expectations, growing significantly faster in January than in December. The balance of respondents reporting an increase in sales from the same month last year rose to 42 per cent from December's 7 per cent. Yet February growth is likely to slacken.







Price of synthetic industrial diamonds to increase

BY KENNETH GOODING, MINING CORRESPONDENT

THE PRICE of synthetic industrial diamonds, which are used for cutting stone and reinforced concrete and by the metal working industry, is going up for the first time since 1982.

De Beers Industrial Diamond Division (Debid), one of the two major suppliers, said yesterday it was to increase prices to its 12 worldwide distributors in March by 15 per cent.

The company said the fall in the real value of the dollar – the currency in which it markets the products – was mainly responsible for the price rise.

Debid is a subsidiary of De Beers Consolidated Mines of South Africa and produces most of its synthetic industrial diamonds at Shannon in Ireland.

It estimates that about $400m-worth of synthetic industrial diamonds are sold each year worldwide representing 200m carats at an average of very roughly $2 a carat.

Debid, probably the major supplier of synthetic industrial diamonds with General Electric of the US close behind, pointed out that its natural diamond products would not go up in price because the raw material – Boart – is purchased in dollars.

Neither would its cubic boron nitride products, used by the ferrous metals industry.

Heseltine seeks wider Merseyside renewal

By Ian Hamilton Fazey, Northern Correspondent

MR MICHAEL HESELTINE has called for the boundaries of the Merseyside Development Corporation to be extended so that it can operate outside the redundant docklands it was set up to regenerate.

He established the corporation in 1980, with its London Docklands counterpart, when he was Environment Secretary.

Urban development corporations are their own planning authorities and the Government supports them with about £20m-£30m a year, putting money into projects directly and bypassing normal local government planning processes.

Extending Merseyside's operations beyond the docklands would eat into Liverpool and Wirral councils' areas.

That would be controversial, but Mr Heseltine says that if it is not done, zones of dereliction may be created around the reclaimed docklands.

He was launching plans at the end of last week to stage a Merseyside Industrial and Business Services Exhibition at the Albert Dock, Liverpool, in 1989.

The exhibition, sponsored by Merseyside Chamber of Commerce and Industry, will be a shop window for the region's recovering businesses.

The Merseyside development body is the smallest, with about 850 acres of land, and if its boundaries are not extended it would probably finish work in three or four years and be wound up.

Liverpool Airport's owners try to chart a rescue course

Ian Hamilton Fazey reports on a symbol of civic pride stuck in a state of limbo

LIVERPOOL Airport, with an international-length runway and new terminal buildings that can handle 1m passengers a year, is in a state of limbo.

It is overmanned for an airport that was used by only 330,000 people in 1987. In addition, it is heading for a £4m loss in the current financial year. The airport was supposed to have been privatised last April 1 but the local authorities who own it have not worked out how to do so.

The owners are the five metropolitan boroughs that make up Merseyside. Of these, Liverpool, Knowsley and St Helens are Labour-controlled, while Sefton and Wirral are "hung" after years of Conservative domination.

The airport was born out of civic pride more than half a century ago and has clung to existence in spite of perpetual funding difficulties and Merseyside's well-documented decline. It has seen Manchester Airport develop as northern Britain's international air traffic hub – in contrast to Liverpool, Manchester handled 8.6m passengers last year.

Liverpool Airport is also symbolic of Labour's dilemma about defending jobs and services. Here is encapsulated the commercial reality of choice and priority for the local councils – some rate-capped, all short of money – in an area where Labour's left-wing is at its most uncompromising.

Staffing levels have prevented profitability even at the best levels of traffic and revenue that the airport could hope for. The airport's official establishment is 239 (reduced by natural wastage to 211), although air traffic control, telecommunications, passenger security, catering and car parking, which all employ others, have been franchised.

A clue to the extent of overmanning is that management has in the past been refused permission to reduce staffing to a central core of 11 people, with everything else franchised to private-sector independents. A second option, with central staffing cut to 68, has also been turned down.

Three plans for the airport, all involving job losses, were analysed last week by the chief executives and treasurers of the five borough councils. They will report today to the joint board of councillors in charge for the issue to be discussed tomorrow.

They have been told to make no recommendations because of the political considerations. None of the organisations behind the plans is offering to buy the airport – its long years of losses have given it a negative net worth.

The proposals are:

- The public sector unions at the airport say they can run it with 150 full-time staff and 20 part-timers. That would require a £1m subsidy in the first year and £133,000 the year after while new business was being developed.
- Airports UK, a subsidiary of the British Airports Authority, has offered to run the airport on a management contract costing £100,000 a year, providing that all staff are first dismissed so that only those required can be re-engaged.
- Ogden Allied Aviation Services wants to take over the airport provided it can have 55 per cent of the equity to give it the right to decide its own staffing levels. The company is the British subsidiary of Ogden Corporation, the US leisure, stadium management and air services company with a turnover of about $900m (£513m).

Ogden has also said that it would, in effect, pay a proper price out of future earnings. It has offered to give the five local authorities, which would own the rest of the equity, more than half of any annual profits made. There would be, according to this scenario, no further charges on Merseyside's ratepayers.

The company has indicated that it is serious in its aims, which are to turn round an important British regional airport and prove its capability as a viable European competitor.

Liverpool Airport's biggest operator, British Midland Airways (BMA), has written giving formal support to this plan. BMA's main interest here is through its subsidiary, Manx Airways, because Liverpool is the key element in Manx's profitable network around the Irish Sea and to London.

BMA's support of the Ogden proposal could be crucial because it reflects the view of professionals in the industry of what the airport requires in order to be profitable.

Total of Japanese banks in London rises to 46

BY DAVID LASCELLES, BANKING EDITOR

SIX MORE Japanese banks opened offices in London last year, bringing their total to 46.

At the same time, the US banking contingent extended its recent decline with a net loss of four banks, reducing their total to 64 and highlighting the gradual shift in the composition of the foreign banking presence.

These figures emerge from the latest survey of foreign banks in London by Noel Alexander Associates, the banking consultancy firm.

The survey shows that 19 banks arrived in London during 1987. Apart from the Japanese, there were 11 from Europe, one from the US and one from Australia.

However, there was also an exodus of 18 banks – the most ever recorded by the survey – leaving a net gain of only one. The total foreign banking presence in London is now 463, its highest on record.

The new arrivals included the three newly created banking subsidiaries of three large Japanese brokerage houses, Daiwa, Nikko and Yamaichi. There was also ASLK-CGER, Belgium's largest savings bank, and McDonnell Douglas Bank, a banking venture created by the US aircraft manufacturing company.

Some of the departures were caused by mergers. Interfirst Bank of Dallas closed its office after merging with Republic Bank of Dallas, and several Indian banks were told by their regulatory authorities to combine their operations.

The figures underline the changes that have occurred in London's foreign banking community in the past five years. In 1982, the US banks hit their peak with 77. In the same year there were only 29 Japanese banks.

European banks have also grown strongly: in 1982 there were 153 of them compared to 189 now.

New foreign bank offices in London - 1987. Noel Alexander Associates, Wardrobe House, Wardrobe Place, London EC4V 5AH. Tel: 01-236 1851.

Life company inspectors criticised

By Eric Short

LIFE COMPANY inspectors' standards of work are generally failing to keep pace with the growing needs of financial intermediaries, according to a survey by Taylor Nelson, market researchers.

Taylor Nelson says in its quarterly Insurance Brokers' Monitor that the life insurance market is changing dramatically because of the Financial Services Act.

The intermediaries will be required to maintain detailed knowledge of life, pensions and unit trust developments.

Their prime source of information is the life company inspector, who deals solely with intermediaries and not with the general public.

The survey shows a 40 per cent rise in intermediaries' complaints that field forces know too little about their company's contracts.

There was also a big rise in complaints that inspectors call too rarely.

Mr Henry Samuels, managing director of Taylor Nelson Financial, says the Financial Services Act concentrated life companies' efforts on improving product development and administration.

However, some life companies appear to have neglected sales-force activities. He says this is clearly an area requiring immediate correction.

The survey shows notable exceptions to this general criticism. Standard Life Assurance, Scotland's largest life company, greatly increased its lead in the overall ratings given by intermediaries for standards among life company field forces.

Other life companies with improved ratings included Equity & Law, General Accident Life, Scottish Equitable and Sun Alliance.

Insurance Brokers Monitor. Taylor Nelson, 44-46 Upper High Street, Epsom, Surrey KT17 4QS. Tel. 03727-29688.

Arthur Young chief to be Ultramar chairman

FINANCIAL TIMES REPORTER

ULTRAMAR OIL and gas group will complete its reorganisation of senior management in July when Mr John Darby, former chairman of Arthur Young, chartered accountants, becomes executive chairman.

Mr Lloyd Benson, chairman and chief executive, will continue as chief executive and concentrate on operations.

The changes arise from retirement next month of Mr Dale Austin, group chief operating officer.

Mr Benson will assume most of Mr Austin's responsibilities except that Mr Peter Raven, finance director, will be president of American Ultramar, the US subsidiary.

Mr Darby, 57, joined Ultramar's board last month as chairman. He will attend to planning, finance, and shareholder and City relationships.

Yesterday he said Ultramar had been through a substantial slimming down since oil prices collapsed two years ago and that a leap forward might be forthcoming. But it was too early to say if there would be a change in group strategy.

Mr Darby was a partner in Arthur Young for 28 years and has been chairman for the past 13.

Glasgow plans business park at festival site

Financial Times Reporter

PART OF THE SITE of the Glasgow Garden Festival, which opens in the spring on the site of the former Princes Dock, close to the city centre, will be used as a 16-acre business park after the festival ends.

The Scottish Development Agency in Glasgow has agreed to new proposals for the site in conjunction with Laing Homes but subject to the approval of Strathclyde Regional Council, Glasgow District Council and the Clyde Port Authority.

Aside from the business park, which should create a further 1,000 jobs, parts of the 96-acre site will be given over to an 11-acre park, an 11-acre riverside development with tourist attractions, some prestige housing developments and a pedestrian bridge over the Clyde from the Exhibition Centre.

Mr Iain Robertson, SDA chief executive, said the agency and Laing Homes recognised some time ago that what happened to the site after the festival should provide the maximum lasting benefit for the Govan community and the city of Glasgow.

Mr Marshall Bryce, of Laing Homes, said the company was enthusiastic about imaginative use of the site after the Garden Festival.

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Economists forecast slowdown in profits

By Philip Stephens, Economics Correspondent

THIS YEAR could mark the beginning of the end of the profits renaissance for British industry, according to a study published today by economists at Phillips & Drew, the City securities house.

Profits for Britain's industrial and commercial companies have risen by an average 20 per cent a year since 1985 but the prospects for 1988 and 1989 are for increases at less than half that rate, the study says.

The share of profits in the economy has risen sharply since 1981 and is now back to the level of the late 1950s. The improvement has been particularly marked in manufacturing industry, which accounts for about half the activity of all industrial and commercial companies outside the oil sector.

Phillips & Drew says that the surge in profits reflects much better labour productivity after the shake-out in the 1980 recession, lower taxes on employment, and falling oil and commodity prices. Investment spending has been subdued as industry has acted to extract profit more efficiently from a smaller capital base at a time when output has been expanding vigorously.

Tha study adds that, in the immediate future, profit performance will continue to be buoyed by the momentum of activity. Order books are at record levels and unit costs likely to be held down while margins rise.

In 12 months' time, however, "profits growth could easily fall away to zero," as a result of a prospective sharp slowdown in activity as consumer spending slows and industry loses competitiveness.

Profits could revive again in 1989, the study says, but only if two conditions are met: the Treasury will have to allow some depreciation of sterling to help exports, and companies will need to cut more jobs to restore productivity.

CEGB studies switch to coal at oil-fired plant

BY MAURICE SAMUELSON

THE CENTRAL Electricity Generating Board is considering converting to coal burning at its big oil-fired power station at Fawley, Southampton, next to the site where it wants to build a new 1,800 MW coal-fired plant.

Both plants would be able to use coal imported in large vessels from Australia, Colombia or Venezuela if that proved cheaper than coal from the Midlands.

Fawley "A", completed nearly 20 years ago, played a key role in helping to keep the lights on during the miners' strike. But it is now used mainly for meeting peak winter demand.

Under a pre-feasibility study recently carried out for the CEGB, it might be converted from oil to coal using a technology called "cyclone combustion", used most widely in West Germany. The study was conducted for the CEGB by Stone & Webster, the US engineers, using equipment made by TRW, another US group.

Fawley's new, purpose-built power station, for which the CEGB recently submitted plans to the Government, would consume about 5m tonnes of coal a year. Conversion of Fawley "A" would double the site's consumption to 10m tonnes a year.

Both plants could be supplied with coal landed at a nearby jetty along railway lines which the CEGB wants to extend.

With the electricity industry plunged into uncertainty over privatisation, it is unclear whether the project will go ahead. The proposal for the new coal station has also aroused strong environmentalist concern in Hampshire, where local authorities are expected to demand a planning inquiry.

The CEGB, anticipating a possible rebuff, has already announced that it is looking at an alternative site at Kingsnorth, Kent.

Environmentalist opinion in the Fawley area will now be further reinforced by the disclosure that coal burning is also being studied at the existing Fawley station. The CEGB is likely to point out that replacing oil with coal would automatically cut down the sulphur emissions from the power station even without flue-gas desulphurisation equipment being installed.

In addition to the new Fawley power station, the CEGB is planning a second 1800 MW plant alongside its coal plant at West Burton, Nottinghamshire. Far from arousing local concern, the scheme thera is assured of a warm welcome, as it boosts the prospects for the local coal industry.

Both new stations are needed to balance the CEGB's system in the south, where demand is growing fast. The Fawley site was also chosen to strengthen the electricity industry's ability to turn to imported coal as a lever in negotiations with the coal industry.

Maurice Samuelson examines a region's power station choices

Sale in the wings for Ulster's electricity

THE PRIVATISATION of electricity may reach Northern Ireland much faster, if less comprehensively, than other parts of the UK.

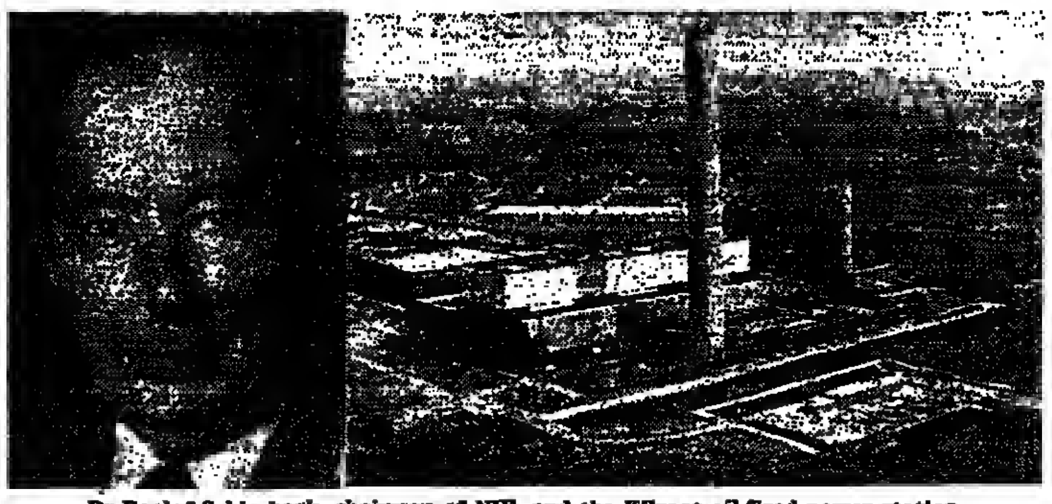
It could even start this year – three or four years earlier than the rest of the UK – if ministers allow the private sector, rather than the publicly owned Northern Ireland Electricity, to build and operate a new power station which is expected to supply about a third of Ulster's electricity.

The private sector could also be admitted to large-scale electricity generation if ministers decide to opt for an alternative scheme to increase the coal capacity of the large Kilroot oil-fired station, part of which is already being converted to coal.

The lignite plant would be the first of its kind in the UK, and would exploit some of the brown coal deposits with which Ulster is richly endowed. Ministers are weighing up two rival proposals for a lignite plant, one from NIE and the other from Antrim Power Company, a private consortium comprising Bechtel International, GEC Turbines, Hanson and Lamont Holdings.

Ministers and officials are comparing both proposals with NIE's claim that the high costs of building a mine-mouth power station to burn the lignite would cancel out the cost advantage of local lignite over coal shipped in from Scotland.

Completing the conversion of Kilroot could be achieved in four years at a cost of £150m, compared with the £500m construction cost of the proposed lignite station.



Dr Roelof Schierbeek, chairman of NIE, and the Kilroot oil-fired power station

Ulster's electricity industry, with a capacity of well under 2,000MW, is barely 5 per cent as big as that of the rest of Britain. It has only three elderly power stations in operation, compared with the much newer 78 stations in England and Wales. But the uncertainty in Belfast is no less intense than in the rest of the electricity industry.

The ministers' decision is keenly awaited by British Coal, the fuel suppliers, and two rival lignite mining interests. These are British Petroleum, which has exploration rights to the lignite at Crumlin, and the Australian-owned Meekatharra Minerals, operating at Ballymoney.

Failure to adapt Kilroot 2 to coal is expected to cut British Coal's sales to NIE from 1.3m tonnes a year to 750,000 tonnes a year, by the early 1990s, when Belfast West, the UK's oldest functioning power station, is due to close.

With Kilroot 1 out of service until it starts up on coal later this year, NIE's three operational plants are: the coal-fired Belfast West station (240MW) and the oil burners at Ballylumford (1,000MW) and Coolkeeragh (360MW).

Belfast West, built nearly 35 years ago, burns 550,000 tonnes of Scottish coal a year. It has worked on base-load since 1974, when oil prices increased, and its boilers are said to be deteriorating rapidly. It also raises pollution problems since it is near Belfast's city centre and NIE will need to close it in the early 1990s.

Coolkeeragh, started in 1956, is little used and although there is talk of extending its life with high efficiency coal firing technology, there are no immediate plans to do so.

That leaves only the oil station at Ballylumford and the first half of Kilroot (to start running on coal later this year) at a time when electricity sales hava been rising by 14 per cent over the past four years and are set to continue growing at at least 3 per cent per annum for the foreseeable future.

With Ballylumford and Kilroot 1 supplying only 1,500MW, it is estimated that the province needs an additional 450MW, by about 1993, with perhaps a further 300MW as Ballylumford gets older.

An announcement about the next stage could be made in March or April by Mr Tom King, Northern Ireland Secretary, or his energy affairs minister, Mr Peter

Officials in Belfast deny that politics will influence the decision which, they say, will focus solely on what scheme offers Northern Ireland consumers the best economic deal.

However, if ministers choose a lignite-first solution, politics would be inescapable since they would face a straight choice between public and private bidders.

It would be surprising if the lignite scheme went to NIE, whose historically poor financial performance reflects its reliance on aged and predominantly oil-fired plant, and given the Government's commitment to privatisation.

Not surprisingly, Mr Roelof Schierbeek, chairman of NIE, seems as touchy about this possibility as CEGB chairman Lord Marshall is at some of the proposals for reforming the electricity industry in England and Wales.

Even if ministers agree that the economics of completing Kilroot are decisively superior than heading straight for a lignite plant, Mr Schierbeek, could be in a no-win situation, since they might only approve it if it were financed and operated by the private sector.

A detailed proposal offered to ministers by S. G. Warburg, the City merchant bank, concludes that the returns on Kilroot would be "relatively high". It envisages a private consortium operating Kilroot 2 under contract to NIE. When the capital is repaid, in about 10 years, its ownership could then revert to NIE.

The plan, believed to have been commissioned by British Coal, has arrived too late to affect the "number-crunching" of the Department of Economic Development.

University-industry link offers course in design

BY RICHARD TOMKINS, MIDLANDS CORRESPONDENT

WARWICK UNIVERSITY'S pioneering partnership between industry and higher education is to include a course in design for manufacturing.

The course is in the university's integrated graduate development programme, an unusual part-time master's degree course for young engineers and managers.

The scheme is run jointly by companies and the university to equip future leaders of industry with advanced technical and managerial skills.

Some 25 companies have joined the scheme since it began in 1981 and there are 260 young industrialists on the programme. Sponsors include Austin Rover, Lucas Industries, British Aerospace and Rolls-Royce.

Subjects to be covered by the design systems programme will include creative design and product quality and reliability.

The course was launched on Friday by Lord Young, the Trade and Industry Secretary.

He said: "The IGD in design systems will help produce a fresh breed of managers who understand the fundamental importance of design – the bridge between marketing and product success."

Non-legal staff to decide on prosecutions

By Raymond Hughes, Law Courts Correspondent

THE Crown Prosecution Service is to proceed with its scheme to let its non-legal staff decide if some prosecutions should be brought, in spite of CPS lawyers' threat to challenge it this week by seeking judicial review.

The lawyers are represented by the civil servants' First Division Association.

The CPS said a meeting with the FDA ended in deadlock. It intended to introduce case-screening by non-lawyers.

The scheme was backed by the National Union of Civil and Public Servants. It provides for some minor cases to be checked and approved by a trained executive officer, working under close supervision and guidance by a senior lawyer, the CPS said.

The FDA disputes the CPS definition of minor cases.

Parts market database

BY NICK GARNETT

A DATABASE listing 15,000 engineering and electronic component makers in the UK has been launched to help large manufacturing companies to find potential suppliers.

The database has been set up at a cost of £1m by Datacross, a company with financial backing from Reed International. It says it is the only computer-based matching system of its type in Britain.

The service is designed to deal with information on manufactured components in mechanical engineering, plastics, electrics and electronics. The suppliers on the database provide details of their products, the kind of contract work they can offer and their general technical expertise.

Potential buyers pay £100 a year to use the service. If they are seeking competitive tenders on a component supply contract worth £5,000 or more, they can send details to the Datacross office in London.

Component makers pay nothing to be on the database. However, if they want the name of a potential buyer they have to pay a £2,000 fee. That allows the supplier to request the names of buyers on 40 separate occasions over any period

Law Lords widen grounds for appeals over rateable values

BY PAUL CHEESERIGHT, PROPERTY CORRESPONDENT

COMPANIES in dispute with the Inland Revenue about the rateable value of their properties have had their hands strengthened by a legal judgment of the House of Lords.

Lawyers and property specialists this weekend have been assessing the implications of a judgment given last week by Lord Keith of Kinkel and four other Law Lords. It accepted the claim by Addis, the brush company, that the rateable value of a property should be lower because it is just outside an Enterprise Zone.

The key issue in the case has been a definition of the word "state" in the General Rate Act 1967. Rateable value can change if the "state" of the building changes from the time of the last general commercial property valuation in 1973.

That is easy to assess if, for example, a motorway is run through the front yard but is more difficult to define when the change in circumstances is a less tangible one, such as the establishment of an Enterprise Zone.

"The word 'state' should in my opinion be given a wide construction, so as to include intangible as well as physical advantages and disadvantages," said Lord Keith in his judgment.

The implication is that the circumstances in which companies can claim rating relief are wider than have hitherto been permitted by the Inland Revenue.

"The advantage of the decision is that it gives authority to a broad approach in rating legislation. It opens the way to people wanting relief to put in proposals," commented Mr Ian Gatenby of McKenna and Co, the lawyers who handled the Addis case in the Lords.

The judgment might open the gates to more appeals against existing rateable values. "We will have to look through our files and see if there is anything which will follow Addis," said Mr Alan Logue, the rating specialist at Jones Lang Wootton, chartered surveyors.

But Mr Paul Needham of Gerald Eve, surveyors who specialise on rating matters, commented: "The onus of proof is still on the ratepayer to show that there has been some diminution of value."

The immediate effect will be on rating appeals that have been waiting for the Lords judgment. There are thought to be 300 in the Swansea area where the Addis factory is situated, alone.

The Addis factory is just outside the Lower Swansea Valley Enterprise Zone, in which companies have a 10-year exemption from rates and a 100 per cent tax allowance for capital expenditure on commercial buildings. The existence of an Enterprise Zone tends to lower the rental value (from which the rateable value is calculated) of premises neighbouring it, simply because companies can obtain more benefits inside than out.

This has been a common phenomenon around Enterprise Zones throughout the UK. Since 1981, 25 of them have been set up as a means of stimulating economic growth in run-down areas.

Both Addis and the Inland Revenue agreed that the rateable value of the Addis factory would be £36,500 if the consequences of the Enterprise Zone were taken into account and £45,500 if they were not.

As the Law Lords have accepted the Enterprise Zone factor as a reason for lowering rateable values, property specialists expect a string of valuation appeals from property holders in a position similar to that of Addis.

But Lord Keith's acceptance of the broad approach to the circumstances affecting a property opens up the possibility of appeals in other sectors. Mr Needham noted that where a steel company is subject to EC quotas, lower production levels might affect the value of the property, thus reducing its rateable value. Similarly the value of shop properties could be lowered by changes in the neighbourhood.

"If there are changes in the circumstances surrounding a property, people are more likely to get relief than before," said Mr Gatenby.

But the results of that relief might be short-lived. The Inland Revenue is beginning the long haul of the first revaluation of commercial premises in England and Wales since 1973. The revaluation will be based on 1988 values and will be the base for the introduction of a uniform business rate in 1990.

There is now a fear that the probability of extra work in assessing immediate rateable values, as a consequence of the Law Lords' judgment, could cause a blockage at the Inland Revenue in the middle of preparations for that change.

The Government itself could also face a tricky problem. It pays local authorities a sum to compensate them for the rates they lose because of the tax holidays in the Enterprise Zones. It will now have to ask itself whether it should offer extra compensation for rates the authorities could lose as a result of the Law Lords' judgment.

NEI and Balfour concede defeat over Chinese plant

BY NICK GARNETT

NORTHERN ENGINEERING Industries and Balfour Beatty conceded defeat yesterday in their turbulent and sometimes bitter battle with GEC Turbine Generators to secure the Yue Yang power station contract in China.

GEC announced last month that it had won the contract to supply and design the station after the signing of a memorandum of understanding with the Chinese power authorities. NEI denied that that meant GEC had won the contract.

The issue was finally resolved at the weekend when GEC officials formally signed a contract in Peking for the coal-fired station project, worth £165m in equipment supply.

Apart from being responsible for station design and plant commissioning, GEC will make the turbine generators. FKI-Babcock, currently the centre of speculation that it might sell its power station equipment business if a bidder made a large enough offer, will supply the boilers.

The loss of the contract, which NEI thought it was on the point of winning last year with Balfour Beatty as the main civil engineering contractor, is a serious blow for the Newcastle upon Tyne company.

NEI lost its battle with FKI-Babcock to supply boilers for the Sizewell B nuclear station in Britain end believes it is more or less out of the main supply contracts for the domestic nuclear station programme.

It is also in a battle to secure work on the Rihand Two station in India, where it acted as main coutractor on Rihand One. Its principal competitor is a consortium including GEC and, possibly, Ansaldo of Italy.

NEI's Parsons turbine bnsiness, which employs 3,000 people in Newcastle, now has no direct turbine manufacturing work.

"The situation at NEI Parsons remains unchanged," NEI said in a statement yesterday. "The company's future was never dependent on Yue Yang. NEI Parsons has a steady and continuing workload of spares, refurbishment, modification work plus general engineering contracts which amount to £60m a year."

NEI is bidding for work in the Far East and Middle East but its biggest hope is the UK's coal-fired station programme. Any further delays in the programme because of the privatisation of the electricity industry would hurt the company.

NEI expressed disappointment at the loss of the Yue Yang contract. "We believe that GEC has ended up with a contract on less than satisfactory terms," an official said.

GEC said it would not go down to a price level at which it was not happy with a contract.

Honeywell Bull to create 250 jobs this year

By Nick Garnett

THE UK operation of Honeywell Bull, the computer manofacturer, will increase its workforce by about 250 this year after increased sales last year.

Honeywell Bull UK, which produces a range of mainframe and small computers as well as software, said it took £153.7m of orders last year, an increase of 18 per cent on the £129.9m in 1986. Total sales were up to £195.1m from £177.1m in 1986.

Pre-tax profits were almost unchanged at £23.3m compared with £23.7m a year earlier.

The company, which employs 2,600 people, said profits would have been much higher but for the costs involved in restructuring early last year.

Honeywell Bull was formed last March within a new ownership made up of Groupe Bull of France, Japan's NEC and Honeywell of the US.

Mr Brian Long, chairman of Honeywell Bull UK, said productivity at the company's Newhouse plant in Scotland was continuing to improve with the use of newer technology.

Child action group calls for fairer tax system

BY MICHAEL PROWSE

THE CREATION of a fairer tax system should be the Chancellor's first priority on March 15, the Child Poverty Action Group says in a Budget submission published today.

The pressure group points out that the wealthiest have gained disproportionately from tax changes since 1979. The tax and national insurance contributions of a couple on half average earnings have risen by £4 over the period while payments from a couple on five times average earnings have fallen by £65.

The study notes that the better off also benefit from a "welfare state" of tax reliefs and perks. A couple on £30,000 a year can derive more state assistance from mortgage interest relief, the married man's allowance, and subsidies for pension and company car than can an unemployed couple with two children from supplementary benefit, housing support and subsidised school meals.

The report says there is no case for cuts in the basic or higher rates of tax, changes that would benefit the better off more than the poor. Instead, it urges measures to make the tax system fairer, increased support for families with children, and an overhaul of the taxation of husband and wife.

It advocates: abolition of the married man's tax allowance; removal of the £295-a-week ceiling on national insurance contributions; restriction of all tax reliefs and allowances to the basic-rate tax; taxation of fringe benefits at full value; and the strengthening of capital taxes, which raise less in Britain than in nearly all other prosperous industrial countries.

Child benefit should be reviewed at Budget time, says the report, because it was a replacement for child tax allowances. It says children have been discriminated against because the real value of the benefit has fallen by 8 per cent since 1979 even though adult tax allowances and earnings have risen considerably faster than inflation. It urges the Government to raise the benefit at least to keep pace with prices and make good previous cuts.

Chance for a change: the 1988 Budget and beyond. Child Poverty Action Group. 4th Floor, 1-5 Bath Street, London EC1V 9PY. £2.

Richard Branson: Enthusiastic about joint ventures.

Intourist invitation to Branson

Financial Times Reporter

MR RICHARD BRANSON, founder of the Virgin group, has been invited to become a director of Intourist, the Soviet Union's tourist organisation.

A Virgin official said he was "enthusiastically considering the invitation. He sees the post as a gesture towards encouraging further trade links and joint ventures between the West and the Soviet Union."

The invitation, probably the first to be made by Intourist te a non-Soviet citizen, followed Mr Branson'e visit to the country last month, when his privately owned Voyager Group signed an agreement to run package holidays for British tourists to the Black Sea coast.

Voyager takes in Mr Branson's hotel and travel interests as well as the Virgin Atlantic airline. This year it will take over the management of the Oreanda Hotel in Yalta, which was formerly a Tsarist palace.

While in Moscow Mr Branson also discussed building links, particularly in the popular music field, between Virgin Group, his quoted entertainment business, and the Soviet Union.

The Russians have also expressed an interest in a joint venture with the Virgin Healthcare Foundation, the charitable organisation set up last year to market Mates condoms and devote any profits to AIDS research.

Foreign funds help lift venture capital investment to £708m

BY CHARLES BATCHELOR

INDEPENDENT BRITISH venture capital funds raised a record £708m last year, approaching three times the £250m raised the year before, according to Venture Economics, a specialist consultancy company.

A feature of venture capital fund raising last year was a huge increase in commitments from foreign investors, which displaced UK pension funds as the main source of capital, it says in UK Venture Capital Journal.

Foreign institutions put up £244m against £28m the year before while the pension funds increased their commitment from £97 to £226m.

Venture capital has emerged as an important source of equity funding for unquoted companies over the past decade. It invests in young companies with the aim of making a capital gain when they obtain a listing or are bought out.

Independent venture capital funds have played an increasingly important role over the past seven years. Before 1981, the industry was dominated by 3i (investors in industry) and "captive" organisations owned by banks and other institutions.

The latest figures bring to £1.79bn the amount raised by the UK independent funds since the beginning of 1981. Of that, 64 per cent has been raised in the past two years.

Thirty-six funds were set up last year – most by management groups with existing funds.

The industry now appears to be segmenting into two groupings: larger funds raising more than £20m (of whicb there were 12 last year); and smaller funds of under £10m of which there were seven (excluding Business Expansion Scheme funds), the survey shows.

Existing venture capital management groups have accounted for nearly three quarters of the total capital raised in each of the past two years, while the number of new groups entering the market has declined.

There is increasing specialisation in the new funds, witb sharp increases in the numbers set up to invest internationally and in management buy-outs.

The five independent funds set up in 1987 to invest mainly in buy-outs accounted for 41 per cent of total funding. Last year also saw the launch of the first Ecu-denominated funds.

The large increase in commitments from foreign investors was due largely to US investment in two management buy-out funds. Funds from the Continent and the Far and Middle East also increased.

NHS competition trials backed

BY ALAN PIKE, SOCIAL AFFAIRS CORRESPONDENT

THE CASE for experiments in competition between public health authorities through internal markets is aupported by current evidence, a paper poblished by the Insitute of Economic Affairs argues today.

Mr Ray Robinson, reader in economics at Sussex University and currently seconded to the King's Fund Institute, a health care *think tank*, says the evidence is insufficient to warrant adoption of internal markets throughout the National Health Service in a single move but there is a case for experiment, possibly within a single region.

Ministers are known to be considering ways of increasing competition between district health authorities as part of their review of the NHS.

Mr Robinson makes clear in a preface to the paper that he does not have the "degree of confidence in the free market as an allocator of resources" characteristic of most Institute of Economic Affairs authors, and regards himself as critical of many of the institute's views.

He gives a warning of the danger that internal markets in the NHS might make access to the service more unequal and penalise low-income and other less mobile individuals by concentrating some specialist medical facilities in a smaller range of districts.

In addition to those potential disadvantages, the practical difficulties of implementing an internal market system would be considerable. But, he suggests, the arrangements might enable the NHS to benefit from scale economies.

The system would require each district health authority to have a balance sheet and income statement.

Efficiency and the NHS: A Case for Internal Markets? IEA Health Unit, 2 Lord North Street, London SW1P 3LB. £4.50

Editorial comment, Page 20

Labour attacks forestry tax loophole

FINANCIAL TIMES REPORTER

POP STARS and top sports personalities are making millions out of a "scandalous" tax loophole over forestry, Mr Gordon Brown, an Opposition front bench spokesman on Treasury affairs, said yesterday.

The Labour Party is poised to launch a campaign demanding that in next month's Budget, Mr Nigel Lawson, Chancellor, ends the system which, it alleges, is transforming Britain's forests into some of Europe's biggest tax havens.

Mr Brown said: "A total of £35m a year – £250m since 1979 and £150m more than the Government has ever admitted – is being given away in handouts to some of Britain's best known top-rate taxpayers, including pop groups, sports personalities and other public figures.

"Yet Tory ministers, happy to allow a thriving tax-haven economy at the top, turn a blind eye to an ever-increasing range of forestry tax loopholes."

Mr Brown said his party would demand action by the Chancellor against tax concessions that had already been criticised by the National Audit Office, the Public Accounts Committee, the Nature Conservancy Council and the Countryside Commissions for Scotland and England.

"The tax relief, wbich can mean a 70 per cent subsidy for forestry investment, including a £100-an-acre forestry grant, allow individuals who buy land to set all planting costs, all interest on purchase loans and maintenance charges against their ordinary incomes."

He said taxpayers could also receive tax concesaions on income from felling and selling the trees.

Kinnock starts Middle East tour

By Michael Cassell, Political Correspondent

MR NEIL KINNOCK, the Labour Partyleader, today starts a one-week fact-finding tour of the Middle East, including a visit to refugee camps in Israeli-occupied terrorities.

He will hold talks in Cairo today and is likely to meet President Mubarak, whom he saw in London three weeks ago, before departing tomorrow for talks with Jordan Government members in Amman.

On Wednesday Mr Kinnock will fly to Israel to meet Mr Yitzhak Shamir, Prime Minister, and Mr Shimon Peres, Foreign Minister.

Before leaving London yesterday, Mr Kinnock said the Israeli Government was patently divided on a solution to the Gaza Strip and the West Bank issues, although there was widespread public support for the idea of an international conference to find a peaceful solution.

Ha believed he was going to the Middle East when there were signs that it was on the threshold of possible progress towards resolving the question of the occupied territories.

He is witb his wife and returns next weekend. He leaves continuing Labour Party controversy over his leadership style and the chance of an autumn challenge to his position.

He said of continuing threats by left-wing Campaign Group MPs to force a leadership contest that Campaign was trying to mobilise distrust and was refusing to take part in Labour's policy review.

He said there was a certain amount of squawking because Campaign members wanted things their own way.

On BBC radio be said the idea of taking on a leadership challenger was temperamentally and politically attractive to him. But, although he was certain of the outcome of any contest, the decision was not his. However, any challenge would distract from party priorities.

People's right to stand for the leadership under the party constitution was not at issue; it was a question of judgment of the impact a contest would have on the party.

He denied left-wing accusations of being authoritarian. He was merely demanding self-discipline from MPs.

هكذا من الاصل

APPOINTMENTS

New board for Ashby & Horner

BOVIS has appointed **Mr Don Gaskell** as managing director of Ashby & Horner. He remains managing director of Ashby & Horner Holdings, which was bought by Bovis last month. **Mr Frank Lampl**, an executive director of P&O and chairman of Bovis Construction, will be chairman. Ashby & Horner's building resources are being combined with Yeomans, another Bovis company. Other Bovis/Yeomans executives on the new Ashby & Horner board will be: **Mr Peter Craft**, deputy managing director and operations director; **Mr Jeffrey Soloway**, sales and marketing director, **Mr Robert Thurlow**, estimating director, and **Mr Tony Ring**, non-executive director. **Mr Clifford Mullett**, finance director, **Mr Michael Hall**, special works director, and **Mr Thomas Redfern**, company secretary, are from Ashby & Horner. **Mr Ashley Boddy**, former managing director of Ashby & Horner, and the company's estimating and commercial director, **Mr Brian Coates**, are transferring to Bovis Construction as senior executives.

*

Mr Bernard Ball, chairman of the Ceraf Group, has been elected chairman of the national joint consultative committee of the RIBA for 1988.

*

Mr James McGreal has been appointed managing director of FASTFRAME, Sunderland. He was director and financial controller.

*

Mr Roger F. Boughton has been appointed managing director, transport services division, with FABER PREST, Rotherham. He was commercial manager with Sutton and Son (St Helens).

*

HADRIAN INTERNATIONAL, Hexham, has appointed **Mr Philip Addison** as managing director. He was finance director.

*

Mr Mark Wingrove has been appointed director and general manager of the steering and suspension division of AUTOMOTIVE PRODUCTS, Leamington Spa, part of the BBA Group.

*

Mr Alan Brooker is joining the board of AUKETT ASSOCIATES as a non-executive director. He was chairman and chief executive of the Extel Group.

*

Mr Robert Oswald Bogie has been appointed pension fund investmeot manager at ALBERT E. SHARP, stockbrokers.

*

HODGSON IMPEY has appointed **Mr Michael Best** as manager of the national trust department. He was x partner at Burley & Geach, solicitors.

*

Mr Serge Tchuruk, president directeur general, and **Mr Jean-Pierre Halbron**, directeur general of CdF Chimie, and **Mr Gianrico Geisseler**, directeur general of Lorilleux, join the board of COATES BROTHERS. This follows the acquisition of Lorilleux International by Coates.

*

Mr Carsten Espbavn Jensen has been appointedchief executive of PRIVATBANKEN, London, in succession to **Mr Christian Figast**, who becomes head of the merchant bank department at head office in Copenhagen. Mr Jensen was head of the corporate banking department in Copenhagen.

*

Mr Patrick J.S. Butler has been appointed an assistant general manager and head of capital markets in the London branch of CREDITANSTALT. He joins from Chemical Bank International, where he was an executive director.

*

Mr Guy Bell, director of Gatwick Airport, has been appointed an executive director of the parent company BAA from March 1.

*

Mr Colin Howman has been appointed managing director of SYSSCAN UK in succession to **Mr Dag Lunderveld**.

*

Following the retirement of **Mr Alfred Moeller**, who is returning to Germany, AEG (UK) has combined its electronic components and standard products divisions at Slough and appointed **Mr J.R. Cockerill** to the board as divisional director.

*

Mr Bill Holmes has been promoted to managing director of CALIFORNIA SOFTWARE PRODUCTS. He was UK director.

*

Mr Nicholas Miller has been appointed a director and **Mr William Marle** an assistan director of GUIDEHOUSE, issuing house and corporate finance arm of The Guidehouse Group.

*

LAWSON MARDON GROUP has appointed **Mr H. Martin Plowden Roberts** to the board. He is a director of Argyll Group, and is to become chairman of Dairy Crest Foods.

*

Mr Colin Skellett has been appointed chief executive of WESSEX WATER.

*

Mr Michael Neale has been appointed chief executive of NOTTINGHAM DEVELOPMENT ENTERPRISE. He was with Neale & Partners.

*

DALE ELCTRIC INTERNATIONAL has appointed **Mr Tom McDonald** as non-executive chairman from March 25 in succession to **Mr Joseph Palmer** who remains a non-executive director.

*

ST. PAUL (UK) has made the following appointments to the board of St. Paul Fire & Marine Insurance Company (UK): **Mr J.P. White**, chairman; **Mr Vartkis Boghos**, managing director and chief executive; **Mr C.A. Bone**; **Mr P.G. Butler**; **Mr L.E. Lainson**; **Mr J.S.H. McLaren**; **Mr N.J. Moore**; **Mr A.R. Taylor**; and **Mr P. Goddard**, company secretary.

*

ERNST & WHINNEY has appointed **Mr David Tunstall** as senior manager in the corporate advisory services department, Edinburgh.

*

STEETLEY BRICK & TILE has appointed **Mr Peter Horne** as sales director of its UK brick division. He was general sales manager.

*

Dr Michael Wright has become group managing director of MOLINS. He joined in 1985 as managing director of the tobacco machinery business. He succeeds **Dr Tess Frankel**, who continues as non-executive chairman.

*

Mr Brian Wootton has been appointed chairman of the management committee of the ASSOCIATION OF PROPERTY UNIT TRUSTS. Mr Wootton, representing the Hill Samuel Property Unit Trust, succeeds **Mr David Doubble**, who has resigned as he has left Rothschilds and is joining Friends Provident Life Office.

*

WPP GROUP has appointed **Mr John A. Quelch** as a non-executive director. He is an associate professor of business administration at the graduate school of business management at Harvard University where he teaches the multi-national marketing managemeot executive program.

*

Mr Roger Bootle, economic adviser to Lloyds Merchant Bank, has accepted a consultancy with UK money brokers MAYFLOWER GROUP.

*

THOMAS FRENCH & SONS, Manchester, has appointed **Dr John Slater** as group finance director.

Hill Samuel Investment Group changes

Mr Roger Kitson has been appointed chairman of HILL SAMUEL INVESTMENT SERVICES in place of **Mr Richard Wales**, who has become deputy chief executive of HSIS Group and finance director, assuming broader responsibilities in the UK. Mr Wales and **Mr David Barker**, managing director, Hill Samnel Investment Management, have become joint chairmen of Hill Samuel Unit Trust Managers in place of Mr Kitson and **Mr Neville Bowen**. **Mr Mark Tennant** has beeo appointed managing director of Hill Samuel Unit Trust Managers. **Mr David Pritchard** has become managing director of Hill Samuel Investment Services International as well as being chief executive of Hill Samuel Investment Services. **Mr Philip Hampden-Smith** has been appointed a director of Hill Samoel Investment Services International. **Mr Peter Morris** becomes deputy managing director of Hill Samoel Life Assurance while remaining appointed actuary.

*

Mr Christopher Pope, chairman of ELDRIDGE, POPE & CO., has taken on the additional new role of chief executive. **Mr Jeremy Pope** becomes sole managing director. **Mr Anthony Pope** retires as an executive director oo May 1, but remains a non-executive director and consultant.

*

Mr Derek Lee has been appointed chief executive of H&H FACTORS, part of the Heller organisatioo owned by Fuji Bank. He was general manager of Mercantile Credit, and joins H&H on February 15.

*

BARCLAYS BANK has appointed **Mr Alan Budd**, professor of economics at the London Business School, as economic adviser to the groop from August 1.

*

SOUND DIFFUSION has promoted **Mr Terry Huggins** to the board as group managing director.

*

Mr Nicholas Pattie has joined GRANT THORNTON's tourism and leisure division. He was operations director of Barratt Time share & Hotels.

*

Mr John Ward has been appointed managing director of WILLMOTT DIXON DESIGN AND BUILD.

*

Mr Martin E. Trowbridge has been appointed an independent member of the board of the INVESTMENT MANAGEMENT REGULATORY ORGANISATION. He was director general of the Chemical Industries Association.

THE MONDAY PAGE

The Fed: defining what to worry about

ANTHONY HARRIS

THE Fed-watchers on Wall Street have had a frustrating time nf it in recent months. Watching the Greenspan Fed is about as exciting as watching a tree grow; there has been just one cut in the official discount rate since the new chairman took office.

Indeed, had it not been for the very effective securities market support operation on October 19, the watchers might doubt that there was anything to watch. Old habits die hard, though, and last Friday the bond market rose sharply on the news of a smaller trade deficit, and then fell back on the rise in producer prices.

This could mean that dealers hoped that the Fed would now relax about the dollar, or alternatively worry more about inflation. More likely, it means that they hoped to drum up a bit of trade on these news items. If they are really watching the Fed, the dealers ought to know that it is unlikely to change its monetary policy on such scanty evidence.

The Federal Open Market Committee (FOMC), which sets policy, has good reason tn be cautious. The governors are all relatively inexperienced and know that it will take time to build up anything like the prestige enjoyed by their former chairman, Mr Paul Volcker. They know, too, that it is far more important to maintain confidence than to make sure that the timing nf any policy change is exactly right. The economy is reasonably robust; the financial system, creaking with excessive debt, is not.

Maintaining confidence means, among other things, showing that they are their own men. Even if they were tempted to cut interest rates, which some of them certainly are not, the heavy hints which have been heard from Mr Beryl Sprinkel, the chairman of the Council of Economic Advisers, and more recently from the US Treasury, should be enough to make them pause. It has been fatal to the Fed's prestige to be seen to be yielding to political pressure ever since Mr Arthur Burns cut rates when President Richard Nixon thought he needed some help, and unleashed inflation.

One of the present governors, Mr Wayne Angell, argues that this was the event which produced monetarism. Mr Burns was a respected economist and, incidentally, a favourite teacher of the arch-monetarist, Professor Milton Friedman. If Mr Burns could not be trusted, who could? That was the appeal, Governor Angell suggests, of a rigid numerical rule which would leave the Fed no scope for independent decision.

Unfortunately the rigid rule produced some pretty terrible results. Policy in both the US and Britain now takes a great deal into account besides the money numbers. In other words, it involves judgment. The present FOMC is determined to avoid premature verdicts.

This makes some commentators impatient. It is clear, they argue, that the US economy is slowing down. Retail sales are no longer buoyant; construction, which is interest-rate sensitive, is in outright depression; and real estate values, against which so much shaky debt is secured, are soft in some places and near free fall in others.

The truth is that it is not so easy to read an economy which is in the middle of a huge structural change, or to define what the Fed ought to be worried about. Orders are buoyant and manufacturing industry is showing some signs of overheating. The recent rise in producer prices is suggestive, though it simply reversed an earlier fall. High levels of overtime working and growing skill shortages are also warning signals.

Above all, the fall in the dollar has eased competitive pressures previously holding down US prices. Some basic industries, notably paper, chemicals and metals, are stretched to meet demand. All this argues for caution.

The governors would like to be able to look past these contradictory indicators to something more objective and conclusive. That is why Governor Angell and his colleague, Governor Robert Heller, have been urging the Fed to use commodity prices as a monetary policy indicator. Here, they both argue, is an important advance indicator of inflationary pressure, which can be observed hourly in a free market and which is likely to respond to changes in monetary policy. A policy which damped down swings in commodity prices would probably stabilise the value of money effectively.

There is an obvious logic about this and the argument is also politically appealing. Treasury Secretary James Baker has proposed a commodity index including gold as a basis for a new international monetary system. The supply-siders believe that a commodity rule would have prevented what they see as Mr Volcker's excesses and allowed Reaganomics to work.

In the real world, though, the commodity standard does not seem to live up to supply-side hopes. Markets are rigged by cartels or price support schemes. Prices are affected by weather, by changes in technology and by chance resource discoveries. Governor Angell believes that an index of commodities which are held in stockpiles would work best, since stockpiling is respoosive to changes in interest rates; but he has not proved it so far.

This does not invalidate the idea, since neither governor is arguing for a commodity standard, but simply for a commodity indicator among other indicators. Indeed, Governor Heller claims that the commodity index is already part of US monetary policy, because it regularly comes up in FOMC discussions, though it is not officially listed as a target. This shows something of the drift of policy thinking in the new Fed.

It suggests that when the FOMC worries about inflation, it is not so much concerned about average prices, which reflect past events, as about trends in costs. It will worry about wages and domestic prices, but not about import prices. It will set its policy about the dollar (low against Europe, but high against some important trade partners like Mexico and Korea) by trade developments: strong trade might argue for a stronger dollar.

Finally, it will trust markets, responsive to pressures which cannot yet be measured, to make the marginal adjustments, and follow them at a dignified interval. As long as the US economy looks reasonable healthy, Fed-watching is likely to remain a dull occupation.

INTERVIEW

Faithfully yours

Stewart Fleming talks to Pat Robertson, the new force in the US presidential race

PAT ROBERTSON is a man in search of a new identity. He is poised uneasily between the persona he is trying to lose, the Christian fundamentalist and television evangelist who predicted in 1980 that the world would end in 1982, and the image he is trying to create – the businessman politician of Presidential timbre, who would lead a crusade from the White House aimed at "restoring American greatness through moral strength".

"I am deliberately downplaying expectations in terms of any theological significance as to my campaign," he said, before his triumph in the Iowa caucuses last week, when asked whether his Presidential campaign was raising hopes among the faithful which no mere mortal could fulfill.

Minutes later, however, when the question was whether he would be running for President if it were not God's will, Mr Robertson – who believes that his prayers turned aside a hurricane and that he has frequently talked with God – responded: "In my heart I know what I am supposed to be doing. I have seen confirmation recently. I am now running a solid third and I have challenged the Vice President. This is confirmation of what is in my heart."

Mr Robertson is a 57-year-old ordained minister, with a cherubic smile and volcanic temper. A week ago, he not only challenged but defeated Vice President George Bush in Iowa, coming second behind Senator Robert Dole in the first contest for the Republican Party's presidential nomination.

Some say that the Robertson insurgency is threatening to tear the party apart. "Robertson is not acceptable socially or culturally" to the local party hierarchies as they exist today, says a former aide in the Reagan White House. There are fears of civil war at local level because of the accompanying influx of fundamentalist blue-collar Christians into a party in which many officials pay mere lip service to the social agenda of the religious right.

Marion G. "Pat" Robertson is, on the face of it, an unlikely guerrilla warrior in the Republican Party. The son of US Senator A. Willis Robertson, he proudly traces his roots back to the Churchills. "I am descended from John Churchill, the second Duke of Marlborough," he says, adding that his family came to his home state of Virginia in the 1750s.

He was educated at Washington and Lee University, in Virginia, and at Yale Law School, Connecticut. People who knew him at college say he was more interested in women and poker than religion.

But he experienced a religious conversion shortly after his marriage and became a Southern Baptist minister. In 1960 he founded the Christian Broadcasting Network (CBN) and has since made it the fifth largest cable television programming network system in the country. In 1986 it received $183m in donations and it has some 4,000 employees. The image of television evangelists has been sullied in the past year by the scandal over the sexual and financial dealings of his one-time friend, Mr Jim Bakker. To avoid that label, Mr Robertson points to CBN's record and describes himself – accurately – as a successful businessman and an educator. He has resigned from the ministry and given up his position at CBN in order to run for the Presidency.

No one knows how many evangelical Christians there are in the US. A 1978-79 Christianity Today-Gallup survey put the number at between 40m and 50m (the total population is about 240m). But evangelicalism is not monolithic. Many of its parts are disconnected and diverse.

● PERSONAL FILE

1930: Born in Virginia.
1950-1959: Educated at Washington and Lee University, Yale Law School and New York Theological Seminary.
1960: Founded Christian Broadcasting Network.
1961: Ordained as a Southern Baptist minister.
1987: Announced Republican presidential candidacy in October.

Mr George Marsden, professor of American church history at Duke University Divinity School, North Carolina, says that evangelicals are united in their belief in the final authority of Scripture, the importance of a spiritually transformed life, eternal salvation only through personal trust in Christ and the importance of evangelism and missions.

Many evangelicals say they are uneasy about Mr Robertson's candidacy, but many more, who have come to know him through his national television show, are becoming passionate supporters.

"He is a true man of integrity, he believes in what he says. Listen to him. I truly believe God's hand is on him, that he cares deeply about children, about moral standards," says Ms Lynn Latourette, a charismatic Iowa evangelical.

But Mr Robertson is claiming that, as he plays down his televangelist past, he is not only attracting support from evangelical Christians who have never voted, but also picking up formerly Democrat blue-collar votes. This claim gains some credence from the fact that in Iowa's cities he polled as well as the winner. Because so many of his supporters do not come from the ranks of traditional Republican voters and are hard to identify in polls, they have been tagged his "invisible army".

Mr Richard Fite, of Cedar Rapids, Iowa, says: "Pat is the first Republican candidate I have supported. I voted for (Vice President) Mondale in 1984 and for (President) Carter. But the Democrats have lost their sense of reality. Pat got me right here," he says, putting his hand on his heart, "(he) tells about recreating the United States I was brought up in school to believe existed. I am trusting the future of my children to Pat Robertson, I have that much faith in him."

Mr Robertson's message, delivered with energy and suppressed passion by a man who has the capacity to hold an audience in the palm of his hand, appeals to the many Americans who yearn for what they see as a purer nation, less tolerant of abortion and homosexuality, more determined to tackle the drug problem and less influenced by politicians, in whom they have lost confidence.

He hits many of the same themes as President Ronald Reagan did in 1980, particularly the jingoistic strain. He talks about America as "the most powerful nation on the face of the earth . . . the strongest militarily . . . the wealthiest . . . the freest". But he is more populist in tone, for example attacking defence industry profiteers. Above all, he addresses the moral agenda of the religious right – on which Mr Reagan made promises but failed to deliver.

"The United States is at a crossroads. We have a crisis in this country, we have a crisis of leadership, we have a crisis of education, we have a crisis in the Federal budget deficit and we have a moral crisis. We have the break up of the moral foundations of our nation," he says.

However, he shrewdly also covers everyday concerns: better quality education for the young and better health care for the old. "I particularly do not want to be President of a nation in which a senior citizen can go into bankruptcy in order to get adequate health care," he says.

His solutions include the privatisation of the social security system, tax breaks to promote the family, zealous opposition to abortion, an all-out assault on illiteracy and "the plague of drugs", and a vehement anti-Communism which would have as its long-term goal not just the destruction of the Soviet empire, but of Communism in Russia itself.

Nor is he in any doubt about the implications of these views for the Western Alliance. "(If) the Europeans say they no longer fear the Russians, they trust Gorbachev, *glasnost* is a lovely doctrine that is going to benefit the world; in that case, the Americans should just as well pull their forces back and let Europe pay (for its own defence). As a matter of fact, I believe America after 40 years has spent enough money and our allies should begin to share the burden."

Two things are striking about the progress of his campaign so far. One is the political skill being shown by a man who has no experience in running for public office. It is ironic, and a tribute to Mr Robertson, that the man most frequently identified as having a public image problem on the Republican side is Vice President Bush, not the preacher turning politician.

The other, and this helps to explain his success so far, is the way in which his Republican rivals, fearful of alienating his supporters, are avoiding attacking him, even though there is evidence that he has been less than forthright in acknowledging some of his beliefs and past statements. For example, he initially denied having said that he believed that only Christians and Jews were qualified to govern in the US, but he had to recant in the face of a television tape of his remarks.

The Democrats – if he gets that far in the presidential race – are likely to be less fastidious.

Many Americans are disturbed by the links between church and state and the moral absolutism inherent in his candidacy. This helps to account for the polls which show that the obverse of his supporters' devotion is the hostility he evokes among voters who do not back his candidacy.

Broadening the base of his support and reducing those negative ratings is one of the main goals of his campaign. Tomorrow's New Hampshire primary will test his ability to do so because, although a conservative state, it is not one in which evangelical Christians are numerous.

Even if he does not do well there, his rivals expect him to be a force to be reckoned with in the bible belt and the South. He has enough fervent support and enough money to stay in the race up to the Republican convention, where he claims, and some of his rivals fear, he could command as much as a quarter of the votes. His support could be decisive in determining wbo the Republican Party's champion will be.

The case for the camera

JUSTINIAN

NOW THAT Parliament is coming to terms with communication to the public through the television screen, what chance is there that the law courts will follow suit? While the courts have long since learnt to tolerate, if not to welcome, the journalist with his notepad, they have never countenanced his presence with a camera.

So insistent have the courts been on excluding the camera (when they are sitting in open and not *in camera*), that Parliament has prohibited all forms of photography. By a section in the Criminal Justice Act 1925, no one is allowed to take any photographs, or even make a sketch, whether of a judge, juror, witness or party to any proceedings in the civil or criminal court.

The prohibition is not confined to the courtroom. It covers the building and its precincts while the court is sitting. And the law protects the classes of person mentioned when they are entering or leaving the building. Advocates, it appears, are not protected from pens, pencils or brushes in the court, or cameras in the precincts.

So jealously, or zealously, guarded are the courts and the actors in them (except the advocates) that only last week Mr Justice Farquharson, trying a murder case at the Old Bailey, was on the point of fining a photographer who had been at the court and had taken a picture of the victim's relative, some distance from the Central Criminal Court. When it was established that the incident occurred beyond the court's precincts, the judge reluctantly conceded that there was no contempt, but he nevertheless bound over the photographer not to bring a camera into the Old Bailey. Cameras in the press room there were instantly withdrawn.

Even in the US, where some states have permitted television cameras into their courtrooms, the traditional view holds sway. Justice William O. Douglas, one of the prominent liberals on the US Supreme Court during the chief justiceship of Earl Warren, wrote in 1960:

"Photographing or broadcasting of trials imperils the fair trial of which we boast. It is not dangerous because it is new. It is dangerous because of the insidious influences which it puts to work in the administration of justice."

Whether the charge is true or not, one fact is clear: there exists in the minds of most lawyers and judges a marked distinction between reporters with pens and those with a lens.

Whilc journalists sometimes experience difficulties in carrying out their reporting, no one seriously questions their right to be in court, to write down what they hear and see, and to produce a fair and accurate report. Special places are provided to facilitate this non-participatory activity in the courtroom. Contrariwise, broadcasters and photographers are taboo. Whatever the reason, and however debatable the logic of such differential treatment, the distinction is there.

Media spokesmen argue, with force, that the distinction made in the past – and reflected in the Act of 1925 – simply ignores the evolution of the electronic press and, in the process, favours one medium of communication over the other. The old assumption, that the newspaper reporter or the periodical commentator was the representative of the unseen multitude, can no longer be so narrowly applied. The camera enables the public to see for itself the attainment of the principle that justice must be seen to be done.

Courts are both the symbolism and the reality of justice in action. The ban on broadcasting and photography is maintained on the ground that their intrusion would detract from the dignity of the proceedings, degrade the court and create misconceptions about the trial process.

Maintenance of the dignity and posture of the court is a legitimate concern. The court must be a quiet, even a serene place. Its single-minded purpose, the pursuit of a just resolution of the issues in dispute, dares not be diminished, much less influenced or distracted. If television were to have that effect, the ban would be sustainable. But would it?

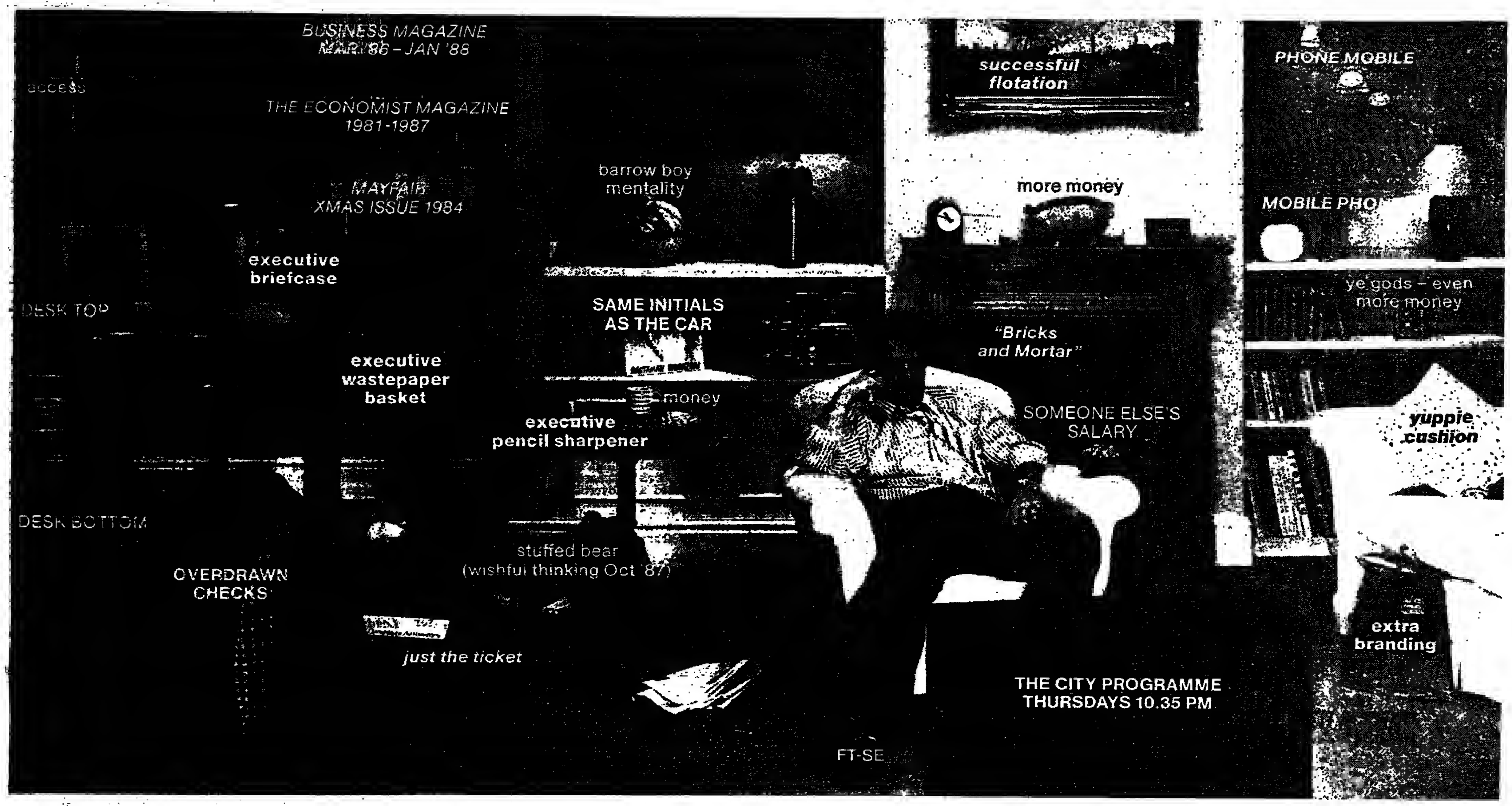
Television has as great a potential to enhance public perception of the administration of justice as it has to harm it. It could report trials fairly, accurately and with proper solemnity, just as it presents other events, like the state opening of Parliament by the Queen.

If a trial is dignified, there is no intrinsic reason why television cannot report it with dignity. If the trial process is undignified, or if the participants – be they judge, advocate, witness or party – misconduct themselves, then the public should know about it and see it. There is no greater correction to public misbehaviour than public exposure. If there is value to the trial being in full view of the public – and clearly we set great store by the openness of justice – there is no reason why we should not enlarge the publicising of the courtroom event.

Because of the blanket prohibition on visual reporting of courts, there is no evidence in this country about the effect television would have on trials or the public's impression of the trial process. As with Parliament, the time has come for some experiment. We could usefully start with televising the Appellate Committee of the House of Lords, the judicial arm of Parliament.

هكذا من الاصل

How do you sell to business people when they're relaxing at home?



Take the businessman above. He's clearly a primary target for a lot of companies advertising on TV.

(Like airlines, computer manufacturers, business periodicals etc.)

But the problem is this. When he's watching the TV at home, he's usually trying to forget all about work. He's curled up before a big film – or fast asleep after dinner.

Which is where "The City Programme" comes in. It provides a topical and well-informed perspective on financial markets around the world.

So the business people watching it are going to be in a business-like frame of mind.

And therefore much more receptive to business-linked advertising.

You can talk to Jonathan Shier about this opportunity on 01-387 9494. And improve your TV reception.

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MANAGEMENT

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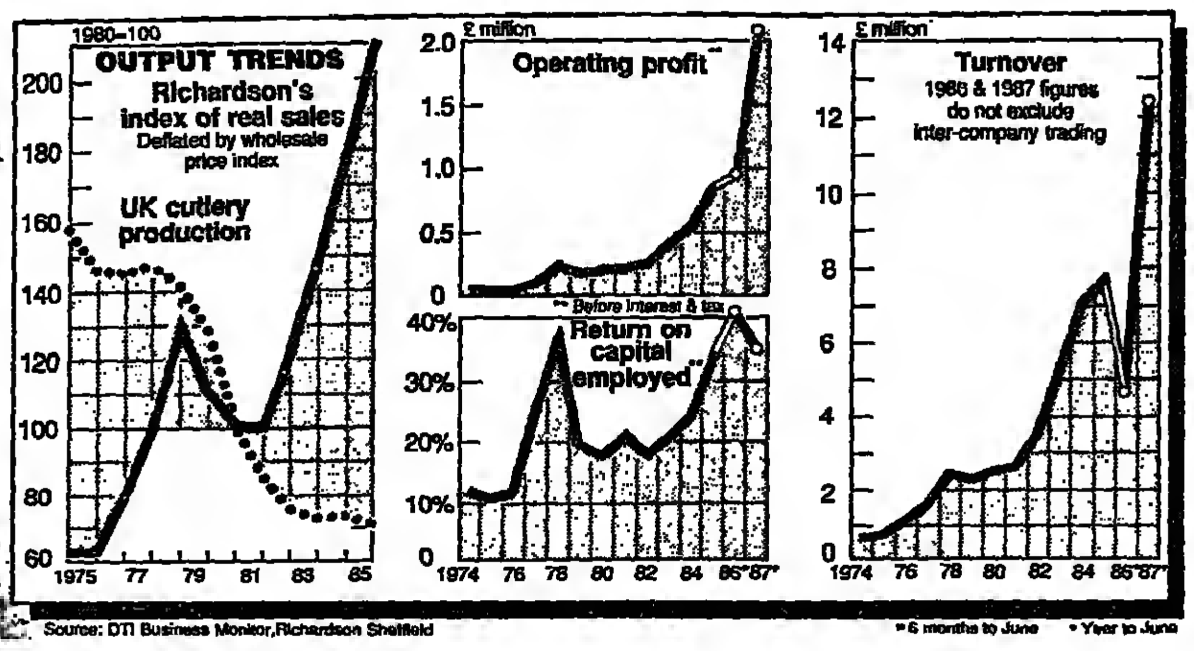


Source: DTI Business Monitor, Richardson Sheffield * 6 months to June ° Year to June

How Richardson Sheffield has achieved a cutting edge

BY CHARLES BADEN-FULLER, ROBERT M GRANT AND CHARLES HAMPDEN-TURNER

THERE COULD hardly be a better symbol of Britain's manufacturing decline than the Sheffield cutlery industry. Output and employment in this Northern town have more than halved in the past 15 years, swept away by a tide of imports from Asia and Europe.

Viners, the largest company in the industry with 530 employees and £12m in sales, crashed in 1982, and a year later Richards of Sheffield, the UK's largest producer of pocket knives, also succumbed. British cutlery production fell by a third from 1975 to 1980, and a further 15 per cent from 1980 to 1984, levelling out over the past three years.

In startling contrast is the record of Richardson Sheffield, maker of kitchen knives (not to be confused with Richards of Sheffield). Between 1975 and mid-1987 Richardson's production rose fourfold, compared with a 50 per cent decline in the UK industry as a whole; approximately half the company's output is exported.

Against stiff foreign competition, especially from the Far East, Richardson currently holds a 35 per cent share of the UK market for kitchen knives, and is the largest supplier in Western Europe, its largest export market.

A fifth of its exports go to North America and it is rapidly expanding export sales to Japan. Its sales have expanded 16-fold since 1975, from £750,000 to virtually £12m, its employment has increased five-fold to 400, and its pre-tax profits from £44,000 to £2.1m. Pre-tax return on investment averaged 21 per cent over the decade to 1984, rising to 36 per cent a year for the two and half years to June 1987.

Richardson Sheffield is one of a number of "British winners" being studied by the Centre for Business Strategy at the London Business School. All of them are diamonds which gleam among the ashes of the UK's so-called "post-industrialism".

But why should this one company thrive so exceptionally among the ruins of Sheffield's centuries-old industry? If macro-economic forces are as inexorable as some economists believe, why has one team of managers been able to defy them so completely?

Richardson's success was founded initially on excellence in production. This was enhanced in the early 1980s by a programme of product development and strong selling, which is now being reinforced by marketing. It is best known for its "Laser" kitchen knives, and in 1986 added the "Staysharp" brand and a range of "Sabatier" professional knives.

First established in 1839, Richardson remained a family company until 1956, when Jerome Hahn, head of an American knife assembler and distributor and one of Richardson's major customers, bought the majority share and later the whole company.

Until 1966 Richardson made only knife blades for Hahn and other suppliers, but thereafter dedicated an increasing part of its operations to making the whole product. This policy was consummated in 1984 when it acquired Elford Plastics, its own principal supplier of knife handles.

Its owner is now McPherson's, an Australian knife producer, Hahn having sold out in 1986 because of his advancing age. But Richardson's driving force has always been its British managing director, Bryan Upton. He left school at 13, later joined Richardson as a production "progress chaser" in 1959, and rose to managing director by way of works manager in 1966.

When Upton took over he immediately "realised that we would be out of business in teo years" because "we were manufacturing blades by such antiquated methods . . . There were plenty of guys in the Far East developing automated methods of production that would kill us. We threw every penny we had into the plant and we designed and built our own equipment. It took us a long time."

The attitude at Richardson to process engineering aince then has been "Japanese" in the sense that advance has consisted of scores of incremental improvements, rather than any giant leap. The chief engineer, Bob Russell, has developed and built much of Richardson's specialised machinery in-house. For instance, he and his staff built from scratch the automated grinding machines which currently produce the "Laser" knife. These allow an operator to aupervise six machines, each producing a blade every five seconds.

Russell explains that "we could have contacted a specialised machinery builder and bought something costing half a million pounds, but it would have been their machine doing their job, not our machine doing the job we want done. Best of all, our machine cost about £5,000."

As every manager knows, one of the great difficulties (and opportunities) in industry is getting different specialists to work effectively together. Richardson has always managed better than most; over the past two years, for example, a small team of mechanical and electronic engineers has been put together by a newly-recruited manufacturing systems expert in order to develop and build electronically-controlled machines.

Electronic sensors now measure the wear on the grinding wheels and change them automatically. Quality and consistency are also electronically monitored; an optical projector tests the keenness of every knife blade edge. Step by step, computer control is being extended to the whole production floor.

Surprisingly, Richardson has not sought enormous increases in volume and scale. It has increased its turnover by making ever higher quality products, and has simultaneously reduced cost, a classic "virtuous circle".

Since 1979, this emphasis on manufacturing has been aupplemented by product innovations. The idea for the first, the "Laser" knife, came from America. Sears Roebuck, the large department store chain, asked Hahn for a knife that would never need aharpening. The request was passed to Upton, who initiated a crash development programme. After "a lot of sweat and tears" his team came up with the answer: a knife guaranteed to stay sharp for 25 years.

Richardson patented the Laser blade and has since ateadily improved it and broadened the range of product variants. Among other development projects, it now has engineers at Manchester University researching into a knife for the year 2000.

Though the Laser project was customer-led, it exposed the company's weakness in marketing. The 1980 launch of the Laser on conservative British retailers was initially a failure. Richardson responded by persuading journalists to attack them in the media, which shamed store buyers into placing orders. "Within three months we were into every department store in the land," says Upton.

This form of sales promotion was a decidedly blunt instrument, but Upton was loath to add anything that smacked of marketing excess. By 1985 he had brought himself to recruit a professional marketing manager, who now has a four-person team.

But it was not until 1986 that Richardson made use of television advertising and large-scale professional market research. Emphasis on styling and packaging is also new.

Upton admits that the integration of marketing into a technical and sales-driveo company has been one of the moat difficult transitions he has had to make. Some of the initial choices of employees and outside agencies have had to be changed, for instance – not without pain.

Richardson's slow conversion to advertising and other elements of the "marketing mix" very much reflects its traditional dislike of frills. Along with its innovative drive, this permeates everything it does; machines are built at low cost, products are developed on tight budgets, and people are often dealt with in similar fashion.

Upton says: "I've got one of the best designers in the world and he costs me next to nothing. He's a Sheffield silversmith and does all our designs from blades to handles to packaging . . It'a the same in other areas."

This atmosphere is not an easy one. The company is close-knit and retains and promotes those who are hungry for extra work and additional responsibility, and who can persuade others to work overtime to beat each new deadline. Financial rewards may not be brilliant – average weekly earnings for all employees in 1986-87 were £123 a week – but many of the workers are young, and promotion prospects are good.

For example, Denise Odgen packed kitchen knives 15 years ago and is now production supervisor in charge of 140 girls aged 16 to 21. "Managers come here and they either love it or hate it," says Gordon Bridge, the deputy managing director.

The team refuses to tolerate bureaucracy, even that of its customers. When a large German contract came in some time ago, untranslated and full of penalty clauses, Richardson Ignored the small print, focused on the deadline and made it. "If we'd waited to translate the document, we couldn't have done it in time," says Bridge. "No-one can match our prices or our delivery times," he claims. "Take an order we got from Italy . . .We had six weeks to manufacture a million and a half sets of knives – at less than 50p a set – to print the packaging and get it approved, and to deliver. We made a profit. There'a no Far Eastern supplier can compete on an order like that."

Significantly, Richardson describes itself as an engineering company, not a cutlery specialist. It is a learning community constantly improving every aspect of its operations. It stresses delegation, personal initiative, owning up to mistakes so everyone can learn, designing satisfaction into all jobs, apotting challenges and confronting them at once, teaching by example, avoiding adversary relationshipa of Ua and Them, demanding the best.

Above all is the sense of zest. "You never, never stop learning," says Upton.

This article is based on a full study of Richardson Sheffield - A British Winner. Available from Centre for Business Strategy, London Business School, Sussex Place, London NW1 4SA. The authors are all associated with the Centre.

VATmen stalk avoidance

HM CUSTOMS & Excise last month moved to allay fears about a recent VAT tribunal decision that could have cost companies millions of pounds of tax. Customs also made clear, though, that it has VAT-avoidance schemes firmly in its sights, and that inspectors will be alert to any such arrangements during their visits to companies.

The tribunal case concerned the ability of companies which make some VAT-exempt sales to reduce the burden of VAT they themselves pay (known as input tax).

One of the basic concepts of VAT is that input tax on purchases is only recoverable if the purchases are used to make taxable sales. Input tax related to exempt sales – which include land, inaurance, finance, health and education – is not recoverable.

Many companies make both taxable and exempt supplies and so can offset only part of their input tax. New so-called "partial exemption" rules in force since April 1 1987 outline how these companies ahould attribute their input tax to the various supplies they make.

Before, a more liberal system gave companies the chance in some circumstances to offset input tax even if the eventual supplies to which they related were exempt.

A recent tribunal decision (*Newvale Ltd* and *Frambeck Ltd*) overturned an artificial acheme designed to take advantage of these pre-1987 rules. In the process, though, it tacitly applied the post-1987 rules to earlier cases – potentially exposing companies to large VAT bills.

Customs has now reassured companies that it will not be applying the letter of this judgment, though it still intends to attack artificial avoidance schemes. This has brought a huge sigh of relief from tax advisers and a number of large companies, though it is tempered with caution. "It's very good newa indeed. But the question of what constitutes avoidance is not clear," says James Dixon, a VAT adviser with accountants Ernst & Whinney.

A dozen other allegedly artificial schemes have been challenged already. VAT inspectors, who visit most companies every three years, will examine records with an eye to apotting theae schemes.

Richard Waters

ARTS

Olaf Baer/Wigmore Hall

Max Loppert

On Thursday, as the central panel of last week's Schubert Lieder triptych, Olaf Baer gave his first London performance of *Die Winterreise*. This was a recital of rare Schubertian accomplishment – and, more important, the demonstration of a fresh, powerful, undutiful approach to a masterpiece so often wrapped in reverential artistic cotton wool.

Evaluation of what makes the young German baritone so specially remarkable a Lieder singer should begin with a few of his basic excellences. His utterance of his native language is marvellously clear, simple, and beautiful – in the best way it is hard to tell whether it is the words or the notes that are being sung. His sense of linear shape and flow is unfailing, and his light, pure vocal production allows almost no gap (apart from a moment or two of top-note uncertainty under pressure) between artistic perception and its realization in performance.

When Schubert moves from minor to major mode, at a moment of unbearable revelation, Baer's freshness and honesty of style and manner are always felt with special keenness. The sum total of these and other, linked qualities was a *Winterreise* in which the focus was thrown with most direct and unfettered intensity on the music – on the cyclical unity of the songs (and this despite Baer's downward transpositions), on their containment of the most profound emotional tremors and terrors within a simple lyric structure.

To say that the focus was musical was therefore to proclaim the uninterrupted dramatic integrity of the performance: there was never the least hint of an interpreter's grand plan to get this or that particular insight across. Future Baer accounts of the cycle will no doubt show further developments along these lines. (Geoffrey Parsons, though his playing was never less than perfectly secure and supportive, was not always ideally alert in his response to the singer's lyrical impulses and glancing changes of emotional colour – no doubt the closest *Winterreise* partnerships take time to develop.) One must fervently hope that the particular radiance of Baer's Schubert singing will never be compromised in the process.

* * *

In his final recital on Saturday, featuring *Schwanengesang* and a selection of songs to texts by Seidl, it was precisely that radiance that continued to glow and leave one marvelling at the sheer beauties Baer consistently brings to his Schubert. There may occasionally be passages when the voice lets its grip on the focus slip; but for the most part the sound is so mellow, so meltingly sensuous as to make any other voice in this music at least temporarily seem quite lacking.

The songs of *Schwanengesang* were not intended as a cycle and they veer unpredictably between extremes. If the singer's view of them as yet falls short in any way, it is that he does not always react to these changes of mood as sharply as he might: the light humour of "Die Taubenpost" was not pointed or playful enough, and the twist at the ending of "Ihr Bild" – a characteristic moment of Heine bitterness – lacked the final stab of pain.

Nevertheless the feeling at the end of the performance was one of heartwarming fulfilment, and of peaks and troughs that had been fully encompassed. It has been said before in the course of these recitals, but it must be said again: Baer is an exceptional singer in the field of Lieder, whose ability to feel the musical potential in each song and translate it into singing of the utmost beauty and truthfulness is a rare art indeed. That he is still so young is cause for great hopes in the future.

Richard Fairman

Kremer & Argerich/Barbican

David Murray

Friday's electrifying recital by the violinist Gidon Kremer and the pianist Martha Argerich was, as one expects from these artists, a one-off of a very high order. Not for them the pre-packaged performance that can be lugged from capital to capital: for all I know they may have played this same programme somewhere every night since Christmas, but here each work sounded an absolute re-creation. Anyone who accompanies Kremer or Argerich needs to be intrepid and preternaturally alert; they deserve each other as partners, and though uncontrollable fission might be feared, in fact they double-dare one another to great heights.

Under the circumstances, descriptive reporting seems somewhat beside the point. You ought to have been there; and you could have been, for there were a few seats unfilled. Do artists of such challenging mettle make Brits nervous, or is it simply that they are not quite household names? A noticeable proportion of the audience was German, French or Japanese, who may well have wondered where the natives were.

For the record, Kremer and Argerich played Schumann's A minor Sonata – or rather not for the record: their Deutsche Grammophon performance was different in many respects, and the soft-speaking tone Kremer adopted for it was replaced by firmer projection for the Barbican. The quality of intimate concern remained, and Argerich's delicate subtlety in a piano-part which is often under-played. Bartok's Sonata no. 1 cannot have had more dramatic depth and passion when Bartok himself first played it with Jelly d'Aranyi: Argerich's piano was brilliantly commanding without the least prejudice to Kremer's famous intensity in the piece.

In Janacek's Sonata, a splendid last-minute addition to the programme, they brought as much revelatory power to bear, while preserving the composer's pungently laconic manner of address. And Cesar Franck's Sonata was extraordinary: not only did many piano-passages leap sensationally to life (as if nobody before has really known how to manage them), but the right economy of the work was boldly enhanced by playing it virtually as a whole, without pause. The ovation that greeted all this was fully in order.

Hunting Group Art Prize winners

This year the Hunting Group Art Prize has been split between two winners: Tom Phillips ARA, for a portrait of Michael Kustow, of Channel 4, and Edward Chell for a view of Jarrow steel works. They each receive £3,500.

The Hunting Prize, awarded by the aviation and oilfield group, is now in its eighth year and attracted 1,500 entries. Eighty-seven have been selected for an exhibition, currently at the Mall Galleries near Trafalgar Square, London before going to Northampton and Falmouth. Most of the paintings are for sale.

Next year the prize money is to be increased and there will be a first prize of £10,000.

Architecture/Colin Amery

Keep the flavour of Fleet Street

London has always been a scattered city, its activities spread widely, a city which lacks the concentrated urban qualities of Paris or Vienna.

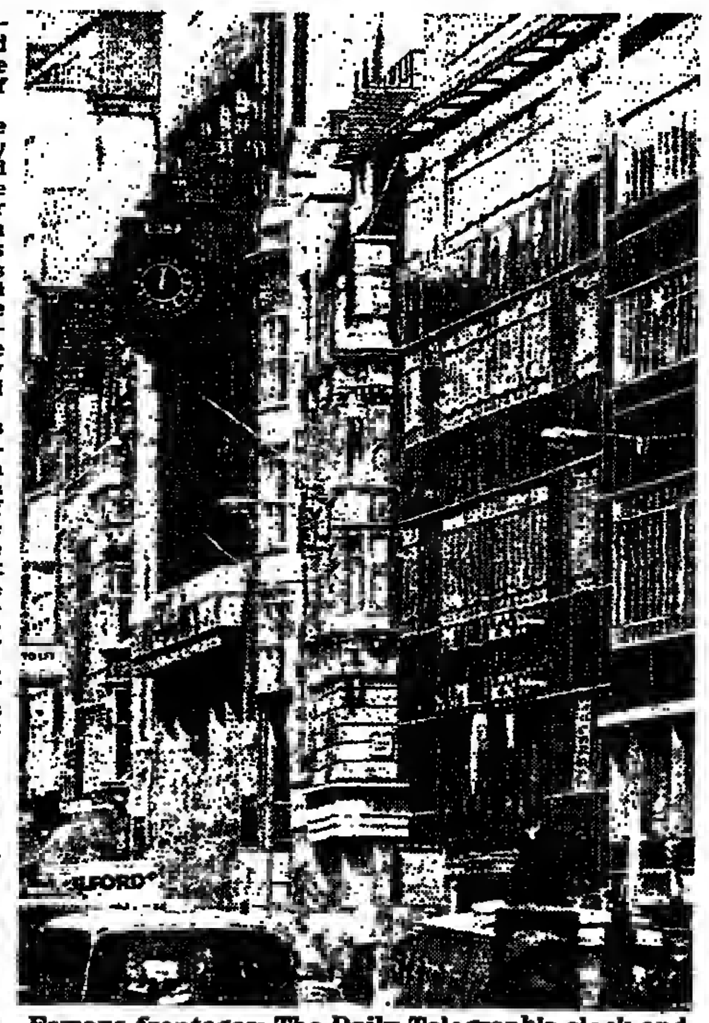
But until recently there have always been sectors of the city where one activity has defined a whole neighbourhood. The concentration of newspaper offices and printing works in and around Fleet Street was one such area; and now, just as the watchmakers have deserted Clerkenwell and the furniture makers spread out from Shoreditch, so the printers and the journalists have almost entirely abandoned their traditional street.

Fleet Street's fame has always been tinged with notoriety and gossip; Ruskin had a view when he described it as "so many square leagues of dirtily printed falsehood." The sense that Fleet Street was the key route between government in Westminster and commerce in the City managed to pervade the Street, sometimes giving the Press an exaggerated sense of self-importance and sometimes a justified one. The status of the newspaper industry was reflected in the quality of its architecture and environment. As the last denizens join the journalistic Diaspora, it is timely to look at what they have left behind.

A Farewell to Fleet Street is the title of the exhibition at the Museum of London that has just opened and will run until the end of May. It has been thoroughly organised by the London Division of English Heritage after a year-long study of the area and its history. It is rather hard to find the exhibition in the mazes of the Museum of London in the Barbican (take note that it is not open on Mondays), but head for the Lord Mayor's coach and you will find it tucked away behind. It is an unusual experience to be at the exhibition because it has been designed to be read as pages of newsprint – making for total silence among the visitors.

The most valuable thing that it achieves, apart from the useful potted history of the print and Press world, is a clear picture of the vulnerability of this quarter now that its main user has departed. The danger is not unlike that which loomed over the Covent Garden area when the fruit and vegetable market moved.

Alongside the major newspaper offices is a tight warren of courts and alleys. A peculiarity of Fleet Street is that the long line of buildings from Shoe Lane to Fetter Lane is unbroken by side streets: instead there is the confusing collection of courts like Gough Square, Johnson's Court, and Bolt Court.



Famous frontages: The Daily Telegraph's clock and the black and chrome headquarters of the Express

The supporting cast of buildings to the major players on the street has always been important, since they give the area character and scale: they are also the most vulnerable. The architectural qualities of this part of London relate more to the coherence of scale, a sense of a whole street with some fine buildings and a great deal of texture and variety. What has to be avoided in redevelopment is the anonymous slab and the collectioo together of a lot of small sites that are tben regurgitated as one indigestible lump.

The exhibition does a good job in telling the tale of the printed word, from the arrival of the printing press with Wynkyn de Worde in 1500 to the dispersal of it all in the 1980's. Read the small history by Susie Barson and Andrew Saint, and then walk down Fleet Street and you will have witnessed with the authors a sudden and complete revolution – the departure of the last great manufacturing industry from an inner city.

It is surprising that this had not happened before; here is not the place to rehearse the long arguments about labour relations in the printing trades, but anachronistic survivals of many kinds kept printing in conditions and premises on valuable commercial sites that had become unacceptable loog before things were transformed with the assistance of "new technology."

What is left are the monolithic shells of some papers that will become the entry portals to new office interiors. The value of these central sites has been a strong factor in the speed of moving out the printing processes. At this moment on the north side of Fleet Street the large printing works of the Daily Telegraph and the Daily Express are being replaced by offices.

The 1931 black glass and chrome headquarters of the Express (designed by Ellis and Clarke with Sir Owen Williams) with its staggering, theatrical entrance hall by Robert Atkinson, will remain as the front door to mere commerce behind. The same thing will happen behind the more solid Elcock and Sutcliffe designed premises for the Daily Telegraph erected in 1928. The Telegraph's stone columned Greek and great clock (now stopped at one minute after midnight) has somehow always embodied that paper's character in a way its new Dockland premises fail to achieve. The old News of the World in Bouverie Street is now being replaced by a massive development of offices for Kumagai Gumi, designed by architects YRM.

The major intruder into the Victorian street pattern will be the Morgan Bank development behind the City of London Boys School. Two whole street blocks will be covered by a strange looking design by Building Design Partnership – retaining the school on the Embankment as another grand portal to lift the spirits before a day on the screens in the air-conditioned world of new commercial space.

Associated Newspapers is preparing for large scale redevelopment of Carmelite House and Obbayashi UK, the new owners of Bracken House, are working with Arup Associates and Michael Hopkins to fit a new banking operation and offices into a rebuilding exercise behind listed facades; it will be a delicate and difficult operation to adapt Sir Albert Richardson plans to the modern world. The Mirror Group of newspapers is also planning a massive redevelopment at Holborn Circus to a set of designs by the American architects Skidmore Owings and Merrill.

"We are all property developers now" must be the byword of newspaper proprietors. The greatest danger of these massive changes is the loss of scale and character in a part of Loodon that, from St Dunstan's to St Bride's, has always reeked powerfully of all the strengths and weaknesses of humanity writ large. It would be tragic if Fleet Street became just like everywhere else.

Sinfonietta/Elizabeth Hall

David Murray

On Thursday the London Sinfonietta offered one of their three-tier concerts – a mostly American evening this time, drawing upon popular experimentalists rather than academic sophisticates like Carter or Sessions. Suddenly one noticed what a very European band the Sinfonietta is: the new American music is for team-players, and gives no hostages to the soloist powers which specially distinguish the London group.

Conducted when necessary by Oliver Knussen, they went at it with a will. The programme was particularly neat, with pairs of Morton Feldman and Steve Reich pieces straddling John Cage and two Japanese cosmopolitans. The pianists John Constable and John Alley were as faultless and indefatigable in Reich's cheerful five-in-a-bar Octet as in Cage's Three Dances for "prepared" pianos (transformed into tuned percussion by rubber and metal bits stuck into their strings) – which are rhythmically intricate and imaginative enough to astonish anyone who knows only the racketty, ultra-permissive Cage of more recent years.

The other Reich was his pretty *Vermont Counterpoint*, with the flautist Sebastian Bell impeccable in the subservient solo role: characteristically, Reich fulfilled a commission for solo flute with a piece for *eleven* flutes (ten of them on tape), granting the live soloist only a slight promineoce toward the end. The gentle Feldman, much regretted, was memorialised by his frail, protracted *Turfan Fragments* and by "Madame Press Died Last Week at Ninety," a delicate epitaph for his old piano-teacher which suggests that a cuckoo-clock took pride of place in her parlour.

The liquid appeal of Takemitsu's *Water Ways* owes rather more to Debussy than it repays – or at least some further interest is due. Jo Kondo's new *Res sonorae*, a Sinfonietta commission, is a fastidious exercise which promises sterling results later: with solo oboe and viola in modest, dissonant unison.

Temirkanov/Festival Hall

Richard Fairman

This was the middle concert out of three which the Royal Philharmonic Orchestra under Yuri Temirkanov is giving in aid of the British Olympic Appeal: each features a popular Stravinsky ballet score in the second half, thus providing a suitably athletic theme to the series.

There was, perhaps, nothing especially racy or energetic about the performance of *The Rite of Spring* that we had on Thursday, but in almost every other respect it was quite enough to raise conservative musical eyebrows.

Temirkanov and the RPO hsve enjoyed a long relationship together, out of which they are able to produce with ease a style of playing Stravinsky that is technically impressive (marvellous sounds from the brass), and full of the most captivating atmosphere.

Beyond that, however, Temirkanov drives the music far down his own personal road of interpretation. We know from Stravinsky's writings on the subject that he was averse to conductora who sought to impose their own ideas on his music and there were many of them here: the great *luftpause* before the eleven *fortissimo* chords in part two, or the sort of slow apeed for the "Evocation of the Ancestors" that the composer once disparagingly described as "tempo di hootchie-cootchie".

Eccentricities of that kind were largely avoided in the account of Schumann's Piano Concerto that preceded it. But here neither pianist (Dmitri Alexeev) nor conductor seemed entirely sure what to put in their place.

Alexeev is sufficiently wise and accomplished a pianist to know that this concerto will not flourish on virtuoso playing alone, yet there was not the keen feeling for quieter, softer colours that might make the music work on a more poetic level. One sensed that he, too, would have liked to join Temirkanov in something more flamboyant.

Much Ado/Croydon Warehouse

Martin Hoyle

The London Shakespeare Group takes straightforward and economically-packaged theatre on tour. The company's activities have expanded since first prompted by the British Council in 1968. They have visited 50 countries in 12 years, and I caught them at the Croydon Warehouse last week before embarking for the Middle East.

Delena Kidd directs, besides providing a very positive Margaret and a bespectacled old crone of a Verges (the unsexing is inevitable with the eight actors taking more than one role each and moving the scenery).

The production is right in essence, affectionate and ultimately moving. It will doubtless be filled in with more detail as it progresses. The undertones to Beatrice's jokey flirtatiousness with Frank Barrie's melancholy, fastidious (and surreptitiously female-appraising) Prince point the way: he answers her bluff gravely, a gentle reminder that princes do not joke about marriage; her slight embarrassment is covered quickly in the ensuing badinage. We could do with more of this multi-levelled reaction, more of these undercurrents parallel and complementary to the text.

Mariselena Rossi's set consists of trellis-work arches garnished with roses, reversed to form masonry, thus serving as garden, church, palace and town. The period is Edwardian and there is nothing cheeseparing about the girls' costumes, notably the lovely evening gowns for Hero and Beatrice, out of John Singer Sargent, and Hero's pearl-encrusted wedding-dress. The company dons rustic smocks and straw hats to swivel the arches, and displays further virtuosity by doubling a bewhiskered Borachio (Gary Raymond) and a bowler-hatted special constable Dogberry with the malcontent Don John – whom Anthony Pedley, neat moustache, cold eyes and military hairline, makes into the most convincing villain I have seen in this part: a truly disgruntled cadet of pre-Great War minor royalty who speaks his mischief naturally and without exaggeration.

Mr Raymond's Benedick grows in stature as the action proceeds – as does the character, after all, from the boisterously humorous but not too bright potential dupe to honey-toned, love-sick romantic whose confession to Beatrice, "I do love nothing in the world so much as you. Is that not strange?" is touching and funny and exhilarating. Jill Brassington's Beatrice is both younger and more conventionally attractive than we expect from the prickly sour-grape man-hater, and the production exploits this by making her warm, lovable and vulnerable. And to *Archers*-fans wondering why Elizabeth is hankering for foreign climes it can be revealed that her *alter ego* Alison Dowling is off to the Persian Gulf as Hero.

Momix/Sadler's Wells

Clement Crisp

Momix, like the Pilobolus troupe with which it shares many attitudes, proposes gymnastics as dance. The performers are at liberty to claim any title they like – the company is billed as "Dance Theatre" – but nothing in the offerings for this first London season persuades me that they are anything but gymnasts who have seen too many nature programmes on television.

The five members of the group (one man is indisposed, and Friday night's programming was of necessity adjusted) are expert in those Nikolais-style activities of not seeming what they are. With clever lighting, reflecting panels, shadows, all the paraphernalia that may disguise an absence of choreography, they pretend for some considerable time to be marine life, or mysterious beings unknown on land or sea. The effect is, essentially, of children dressing up, and playing at "being" things or people, and I am not sufficient of a tot-lover to want to spend an evening in the theatre watching grown-ups aping infants.

There is about Momix, as about Pilobolus, an element of the faux-naif which I find too determinedly quaint for comfort. Indulging in foolish games with large balloons, rippling an enormous rope across the stage, are no substitutes for dancing or movement invention. And when four people are credited as being responsible for the "choreography" of a number in which a man and a woman teeter and curve over the stage on skis, or when three are cited as the creative force behind a numbing exercise in which two women seem to grapple together inside a vast mollusc shell, then the merits of the enterprise escape me wholly.

Moses Pendleton, director of the ensemble, appears white-suited in an eccentric cabaret-style dance, and is involved with Cynthia Quinn in a tediously sculptural duet, *Shizen*, whose greatest merit is a virtuoso score for flute by Riley Lee. The music, apart from an aria from Purcell's *Dido*, is otherwise fatuous. And on musical matters, I record with absolutely no pleasure, that Sadler's Wells Theatre precedes the performance, and fills the interval, with recordings of nugatory pop music. Away with such intrusions.

Alastair Muir

Lisa Giobbi and Joseph Mills curve on skis

Saleroom/Antony Thorncroft

Coward gives glamour

The most glamorous auction of the week will undoubtedly be the Christie's evening event on Thursday when 30 paintings by Sir Noel Coward come under the hammer.

Inspired by a weekend visit in the 1940s to another famous amateur dauber, Sir Winston Churchill, Coward became an enthusiastic painter in oils, with a distinctive palate that has elements of Lowry in its treatment of figures and of Hockney in its love of bright colours. Most of his paintings are landscapes, many with a Carribean setting.

Christie's is so impressed by the pictures that it has put an estimate of up to £40,000 on one work, Two nuns, which shows two diminutive black clad nuns surrounded by holidaymakers on an English beach. It is an extraordinary price for a hobby artist.

In all the works are expected to raise more than £300,000 for theatrical charities.

Earlier in the day, Christie's has a routine sale of modern British pictures. This is a sector which has boomed in the past two years, especially the work of the Newlyn School artists. There are signs that prices are now reaching a plateau, but with potential in the art of the post-1945 period.

There are good examples here of Mervyn Peake, who is represented by a substantial group of drawings all priced at less than £1,000 each, as well as John Bratby and Frank Dobson. The modestly financed collector could well find a bargain.

The Birmingham entrepreneur Matthew Boulton was so inspired by the heroic deeds of the British navy st the Battle of Trafalgar that he decided to award, at his own expense, a medal to every participant.

The officers got silver medals, down to pewter for the most humble. Two Trafalgar medals come up for sale at Sotheby's in Billingshurst on Wednesday, one of white metal, the other of pewter. Each should cost about £100.

Christie's aale of British ceramics today sums up the msrket, with the two most expensive items likely to come from the early 17th and the late 19th century while 18th century porcelain remains underpriced.

A very rare Southwark Delft wine bottle, with a date of 1628, could well double its £12,000 top estimate while from about two and a half centuries later comes a Minton majolica peacock, measuring five ft in height, which should make at least £15,000. It will probably end up in the US.

Sotheby'a is having a fairly quiet week in London but next Saturday opens up again in Monaco for a three-day sale, which kicks off with some fine 18th century French drawings.

Most important is a rare Fragonard watercolour, A view of figures in a park, which carries a £150,000 top estimate. There are also several Boucher drawings for sale.

An unusual item is an 18th century gouache depicting a ball in a park in Brazil by a local artist. It carries a top estimate of £7,000.

Arts Guide

February 12-18

Music

LONDON

English Chamber Orchestra conducted by Jeffrey Tate with William Bennett, flute and Frank Lloyd, horn. Mozart. Barbican Hall (Mon). (638 8891).

London Philharmonic conducted by Jerzy Maksymiuk with Kun Woo Paik, piano: Haydn, Mozart, Stravinsky and Ravel. Royal Festival Hall (Mon). (928 3191).

Royal Philharmonic Orchestra conducted by Nicholas Cleobury with Philip Fowke, piano. Grieg, Tchaikovsky and Dvorak. Barbican Hall (Tue).

Philharmonia Orchestra conducted by Paul Sacher with Anne-Sophie Mutter, violin. Haydn, Mozart, Stravinsky and Bartok. Royal Festival Hall (Tue).

English Chamber Orchestra conducted by Jeffrey Tate with Evelyn Glenny, percussion and Felicity Lott, soprano. Milhaud, Britten and Strauss. Royal Festival Hall (Wed).

City of London Sinfonia and Westminster Singers conducted by Richard Hickox with Simon Preston, organ, Jean-Bernard Pommier, piano, Patricia Kwella, soprano and John Shirley-Quirk, baritone. Poulenc, Ravel and Faure. Royal Festival Hall (Thur).

London Sinfonietta conducted by Esa-Pekka Salonen. Dallapiccola, Maderna, Boulez and others. Queen Elizabeth Hall (Thur). (928 3191).

TOKYO

Rudolf Serkin (piano). Bach, Schubert, Beethoven. Suntory Hall (Mon) (573 3588, 545 8348).

Shura Cherkassky (piano) with the New Japan Philharmonic Orchestra. Schumann Suntory Hall (Tue) (545 8348, 573 3588).

Nohoru Kamimura (cello) with Kazuoki Fuji (piano). Francoeur, Schubert, Chopin, Falla. Tokyo Bunka Kaikan recital hall. (Tue) (437 6837).

Shinsei Nihon Symphony Orchestra, conductor Pascal Verrot. Faure, Ravel, Poulenc. Suntory Hall (Wed). (985 4836).

Takao Okamura (bass). Schubert Winterreise. Tokyo Bunka Kaikan recital hall. (Wed) (501 5638).

NHK Symphony Orchestra, conducted by Heinz Wallberg with Showa Academia Musicae. Rossini, Verdi. NHK Hall (Thur) (465 1781).

PARIS

Lucia Valentina-Terrani recital, Edoardo Lanza, piano (Mon). Théatre de l'Athenée (42 30 15 16).

The Nash Ensemble, Groupe Vocal de France conducted by Reibel: Delius, Bridge, Vaughan-Williams (Mon). Théatre des Champs Elysees (47 23 36 27).

Nouvel Orchéstre Philharmonique conducted by John Nelson, Gary Hoffman, cello: Haydn, Mozart (6.30pm): Maria Joao Pires, piano recital (8.20pm). Both concerts Mon, TMP-Chatelet (42 33 44 44).

Vienna Philharmonic Orchestra conducted by Claudio Abbado, Maurizio Pollini, piano. Beethoven (Tue). Salle Pleyel (45 63 88 73).

Vienna Philharmonic Orchestra conducted by Claudio Abbsdo, London Symphony Chorus conducted by Richard Hickox: Beethoven's 9th Symphony (Wed). Salle Pleyel (45 63 88 73).

Pierre Amoyal recital (Wed). Théatre des Champs Elysees (47 23 36 27). **Orchéstre de Paris** conducted by Serge Baudo, Marc Laforet, piano, Pascal Moragues, Clarinet: Roussel, Ravel, Debussy, Prokofiev (Thur). Salle Pleyel (45 63 88 73).

Quartet Academy St-Martin in the Fields: Mozart (Thur). Salle Gaveau (45 63 20 30).

Thomas Trotter, organ with the Saint Michael Anglican Church choir: Stanford, Wesley, Gounod/Best, Wagner/Lemare (Thur). Radio France, Grand Auditorium (42 30 15 16).

ITALY

Florence, Teatro Communale. Katia Ricciarelli accompanied by Vincenzo Scalera (Tue), Gerd Albrecht conducts Beethoven (with pianist David Golub, soprano Beatrice Haldas and Baritone Udo Reinemann (Wed). (277 9236).

Rome, Oratorio del Gonfalone: Quartetto Romano Complesso di Strumenti Antichi, Corelli Marcello and Sammartini Via del Gonfalone 32A (Thur) (687 5952).

NETHERLANDS

Amsterdam, Concertgebouw. Ken-Ichiro Kobayashi conducting the Netherlands Philharmonic with the Contiguglia Piano Duo: Weber, Mendelssohn, Stravinsky (Thur). Recital Hall: David Geringas, baryton, Vladimir Mendelssohn, viola, Emil Klein, cello: Haydn Danzi, Bach (Tue). Jan Sibelius Quartet: Aho, Haydn, Sibelius (Thur). (71 83 45).

The Hague, Philipszaal. The Netherlands Philharmonic under Istvan Parkanyi, violin, with Richard Wolfe, viola, and Ronald Brautigam, piano: Mozart, Hindemith, Atterberg, Mendelssohn (Mon). The Arion Ensemble cooducted by Alexandru Lascae: Telemann, Locatelli, Mozart, Arensky, Prokofiev, Shostakovich (Wed). The Schonberg Ensemble and the Hague Percussion Group coodocted by Reinbert de Leedw, with Ariane Arcoja, soprano, and Neil Jenkins, tenor: Henze (Thur). (60 98 10).

Rotterdam, Doelen. Bach organ recital by Arie Keijzer (Mon). The Schonberg Ensemble and the Hague Percussion Group conducted by Reinbert de Leeuw, with Ariane Arcoja, soprano, and Neil Jenkins, tenor: Henze (Wed). (413 24 90).

Utrecht, Vredenburg. Recital Hall. The Ridge String Quartet: Haydn, Bartok, Grieg (Tue). (31 45 44).

Groningen, Oosterpoort. The Schonberg Ensemble and the Hague Percussion Group conducted by Reinbert de Leeuw, with Ariane Arcoja, soprano, and Neil Jenkins, tenor: Henze (Tue). The Ridge String Quartet: Haydn, Bartok, Grieg (Thur). (13 10 44).

NEW YORK

Philadelphia Orchestra. Riccardo Muti conducting with Westminster Choir directed by Joseph Flummerfelt. Mozart, Bruckner, Verdi (Mon). Carnegie Hall (247 7800).

Ivo Pogorelich piano recital. Beethoven, Scriabin, Ravel (Tue). Carnegie Hall (247 7800).

Northern Sinfonia. Barry Tuckwell french horn. Elgar, Holloway, Mozart, Gounod, Haydn (Thur). Carnegie Hall (247 7800).

For the Love of Music. Jeffrey Solow cello, Richard Sortomme violin, David Taylor bass trombone. Shostakovich, Chihara (world premiere), Dvořak (Tue). Merkin Hall (362 8719).

New York Philharmonic. Zubin Mehta conducting. Stravinsky (Tue): Zubin Mehta conducting, Alexander Toradze piano. Rachmaninoff, Stravinsky (Thur). Avery Fisher Hall (874 2424).

WASHINGTON

National Symphony. Mstislav Rostropovich conducting, Eugene Istomin piano. Rossini, Haydn, Brahms (Tue): Sir Neville Marriner conducting, Cecile Licad piano. Mozart, Richard Strauss, Tchaikovsky (Thur). Kennedy Center Concert Hall (254 3776).

CHICAGO

Chicago Symphony. Michael Tilson Thomas conducting. Beethoven, Ives, Rachmaninoff (Thur). Orchestra Hall (435 8111) Camerata Chicago: Quantz, Haydn, M Baoer, Roussel, Bartok (Tue). Orchestra Hall (435 8111).

FINANCIAL TIMES

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Britain's true EC destiny

MRS THATCHER'S decision on Friday night to accept the package deal then on the table at the European Community summit must have been one of the most difficult of her career. She deserves full credit for it, not because the deal is in itself a good one but, precisely, because she had the political shrewdness to realise it was the best she was going to get, and the statesmanship to understand that more would be lost than gained by prolonging the agony, for Britain as well as for the community.

It is undoubtedly disappointing that the community has not been prepared to adopt a more rational and economical method of financing EC agriculture, especially since, aided by the galloping size and cost of the surpluses, Britain has seemed in the last year or two to be winning the intellectual argument on this point.

The French in particular, whose large and relatively efficient farm sectors could expect to prosper in a *genuine* agricultural market where prices were determined by competition rather than political horse trading and whose exchequer has of late become a net contributor to the community budget, had seemed increasingly sympathetic to British ideas. But when the crunch came the combination of vested interests in France with the weight of the Franco-German alliance was too strong, and there was no real reason to suppose that this could be changed by waiting until the June summit when the French presidential elections would be over.

CAP ceiling

The argument was fierce, but it was over details. Even if Mrs Thatcher had won all her points on Friday the result would still have been a lame compromise. The "stabilisers" would not have been enough in themselves to ensure that the agreed ceiling for the growth of the cost of the Common Agricultural Policy (74 per cent of gross national product) would be observed.

As it is, at least that limit has been solemnly agreed in principle, which will provide a powerful argument for moderation in the meetings which fix the annual price increases. Those will still be the meetings that ultimately determine the cost of the CAP. Logically, therefore, they should be attended by Finance Ministers who have to find that cost, and not only by Ministers of Agriculture whose "clients" are the recipients of the money.

Politically, Britain has to accept that the Franco-German axis is the real backbone of the community, which may bend but does not break. Twenty five years after de Gaulle and Adenauer sealed their treaty of friendship, the dividends for both countries are clearly apparent. Britain pays the penalty for its patronising attitude to continental politics, and for its insistence on giving priority to a largely imaginary "special relationship" with the United States.

Sacrifices

At least it should be clear now that Britain has accepted its European destiny, and is prepared in the last resort to accept the sacrifices necessary to make the community work. In return, Britain has obtained at least the beginnings of a more equitable system for assessing the contributions of member states to the budget, while keeping the Fontainebleau rebate mechanism intact at least for the time being.

A less protectionist, less heavily subsidised agricultural policy will come, if it comes at all, from a global negotiation with the community's main trading partners. From now on it should not be necessary for the internal politics of the community to be dominated by questions of agriculture and finance. Other issues await the urgent attention of the EC's leaders, notably the creation of a genuine common market combined (as it logically must be) with a much closer unification of economic and monetary policies, and the development of a common security policy to defend the community's interests within the Atlantic alliance at a time of increasing uncertainty about American strength and American intentions.

The financing of health care

THE IDEA that the British National Health Service should be financed by some kind of health "stamp", rather than out of general taxation, appears to be gaining in popularity. Last week, just such a switch was separately proposed by Mr Leon Brittan, the former Tory Home Secretary, and by Mr Frank Field, the Labour MP and chairman of the all-party House of Commons social services committee.

The two MPs' motives in championing national insurance funding for health are rather different. Mr Field sees the move primarily as a means of boosting state support for the NHS. National insurance contributions are linked to earnings and consequently NHS receipts would run "well in excess of inflation". More important still, "it would be difficult for the Treasury to lay its hands on any of the funds".

Mr Brittan, however, sees the switch primarily as a means of boosting private support for health care and of bringing home to people the true cost of the NHS. He argues that people who want private medical care should be allowed to opt out of part or all of their state health contributions. Mr Field, doubtless conscious of the risk of a two-tier system, is dead against opting out in any form. He would expect the rich to pay proportionately more for the NHS than the poor because in his proposal the compulsory contributions would rise progressively with income.

Hypothecated tax

It is easy to sympathise with schemes that aim to boost the NHS's resources. But is it plausible to argue that a government that seeks to constrain state finance for health would be diverted from that goal merely by the creation of a special or hypothecated tax? NHS expenditure would still count as public spending and would be regulated for that reason alone. Conversely, you do not need a health stamp in order to allow NHS spending to rise in line with economic growth. The Cabinet can simply agree that this is sensible and instruct the Treasury accordingly, as was done for the first three decades of the NHS's life.

The case for hypothecated taxes in general is rather weak. Taken to an extreme they would lead to chaos. Special levies could be earmarked for everything from defence to public transport (with contracting-out facilities for pacifists and housebound mothers), on the grounds that their true burden could not be appreciated unless they were itemised on pay slips. It is important to raise and spend revenue as fairly and efficiently as possible, but this cause is not likely to be advanced by insisting that the proceeds of certain taxes be ear-marked for certain programmes. Indeed, it is ironic that the idea of a health tax should have surfaced at a time when many fiscal experts favour the merging of income tax and national insurance contributions on grounds of simplicity and efficiency.

Deterioration

In the present climate, it would be naive not to expect a switch to national insurance finance for the NHS to result in contracting out facilities for the well-off. Such facilities would almost certainly lead to a long-term deterioration of NHS care. Those most likely to contract out would be the articulate, well-heeled middle classes — precisely the people who today lobby most effectively for better standards within the state sector. Their exit would raise costs for those left in and do nothing for the NHS's resource crisis: indeed, rebates to those contracting out would take cash out of the service at the same time as expanding private hospitals were bidding away doctors and nurses, the supply of which is limited in the short to medium term.

A different form of funding is neither a sufficient nor a necessary condition for increased efficiency in the supply of health care. The real priority is to find ways of improving the internal organisation and management of the NHS

In the first article of a series, **Philip Stephens** looks ahead to the UK Budget

Finding a place in history

EXPECTATION, even excitement, surrounds Mr Nigel Lawson, the UK Chancellor of the Exchequer, as he puts the finishing touches to his strategy for the March 15 Budget. With the economy growing faster last year than at any time since the early 1970s, the Treasury is awash with revenues to spend on cutting tax rates and on overhauling the system.

For Mr Lawson, his fifth Budget and the first of the new parliament will be the best chance he has to secure a prominent place in the history books. The 25p basic rate of income tax, first promised in 1979, cuts in and rationalisation of the top rates of tax, and a start on dismantling the archaic and sexist tax treatment of husbands and wives are all within his grasp.

Mr Lawson can be expected to seize the opportunity. He has got used to success and to the political accolades which follow clever Budget packages.

Just as importantly, he can also afford to be the first Chancellor since 1970 to set a target of zero for the public sector borrowing requirement (PSBR); though Mr *Roy Jenkins* balanced the Budget then without the benefit of £5bn in privatisation receipts.

Constructing the right package for March 15, however, will not be as easy as it looks. The balance between opportunity and risk is probably the finest since Mr Lawson entered No 11 Downing Street in 1983.

Last year's economic boom, when output grew faster than at any time since 1973, has left in its wake acute uncertainty over prospects for 1988. October's stock markets crash has further clouded the outlook. Recent industrial disputes, accelerating earnings growth and a worsening trade deficit have raised the question of how fundamental the improvement in Britain's economic performance has been.

First though, the opportunity. The buoyancy of the economy — growth in the latter part of 1987 was running at an annual 5 per cent or more — has given Mr Lawson more revenue to play with than he could have dreamt of even a year ago.

The Institute for Fiscal Studies (IFS) estimates that Government receipts in the 1988/89 financial year will be some £9bn higher than forecast in the 1987 Budget. The Treasury has admitted that it seriously under-estimated receipts in the current financial year. It now expects the PSBR to turn out at closer to zero than its original £4bn target; there may even be a small surplus.

In 1988/89 virtually every major tax can be expected to yield more than originally expected. Rapid growth in earnings and increased employment will push up income tax and National Insurance receipts; buoyant consumer spending will increase the take from value added tax (VAT); and the strength of company profits will boost corporation tax payments.

Mr Lawson has already used part of the windfall to increase planned public expenditure by £3bn. But the IFS arithmetic suggests that he can still set a PSBR target of zero, announce cuts in tax rates worth a net £4bn and hide a further £1bn in the Treasury accounts for a rainy day. If — though it is highly unlikely — the Chancellor were to stick to the original £4bn target for borrowing in his medium term financial strategy (MTFS), he could announce a "giveaway" of between £8bn and £9bn.

The exact split between borrowing and tax cuts is the hardest decision he has to make. In the days when governments openly espoused demand management of the economy it was called the Budget judgment. The MTFS, which Mr Lawson sketched out in 1979 as a junior Treasury minister, was supposed to make it redundant by setting a framework for fiscal policy. The intention was that gradual reductions in the share of national income taken by public spending would provide for a gradual and predictable cut in the proportion taken by taxes and borrowing.

But varying combinations of the Treasury's failure to meet medium-term spending targets and its under-estimates of revenues have restored the need for the old-fashioned judgment. And, though demand management is still a dirty word in Mr Lawson's vocabulary, the development suits his activist instincts.

It is here, though, that risk has to be weighed against opportunity. The fiscal stance will have an important influence on the pace and pattern of growth, the outlook for the trade deficit and the rate of inflation — at a time when it is far from clear in which direction the economy is moving.

The most recent economic indicators suggest that the danger is on the side of overheating rather than slump. Perhaps as importantly, demand has been growing faster than industry's ability to supply it. The result has been a significant worsening of the balance of payments, with the current account deficit in the last quarter of 1987 running at an annual rate of £6bn.

Some slowing in domestic demand growth looks inevitable. The fall last year in the ratio of personal savings to incomes to its lowest level for a generation suggests that the surge in consumer spending is not sustainable.

What is less certain is whether the slowdown will be sufficient to prevent a further deterioration in the trade position, and whether last year's boom has left industry with an inflationary hangover. The recent upturn in earnings has come at the wrong time. Employees are basing their claims for this year's wage rises on last year's productivity and profits. None of those will be as good this year.

Against that backdrop, even a modest rise in the rate of earnings growth threatens higher inflation and an erosion of industry's competitiveness. Exports, meanwhile, will be hit by the combination of a weak dollar and lacklustre growth in other industrial countries.

It is those sorts of consideration that have prompted the Bank of England and Mr Lawson's Treasury advisers to adopt a relatively cautious approach to tax cuts. Their view seems to be that public borrowing in 1988/89 should be no higher than in the current year.

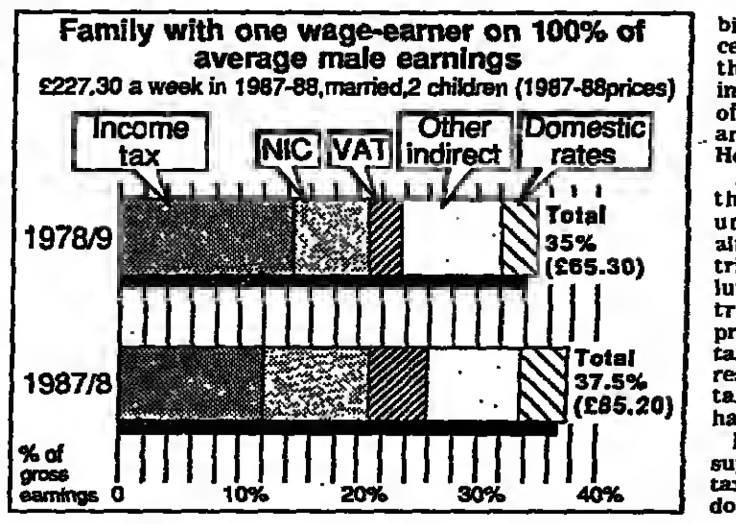
A neutral to tight fiscal policy is seen as encouraging a shift in demand in the economy away from consumption towards investment and exports, providing a more sustainable pattern of growth. It would also spread the burden of containing inflation, curbing upward pressure on interest rates.

Finally, and this is branded as heresy in the public utterances of ministers and officials, it would reduce the inflationary risk of some depreciation in sterling's value against the D-Mark later in the year.

No one, though, is saying that Mr Lawson should forgo tax cuts completely, since the economy could move into a lower gear sooner than the backward-looking indicators suggest at present.

Mr Lawson also has to cut taxes merely to stand still. Because earnings have been rising faster than inflation, to which tax allowances are linked, the burden of taxation has risen over the last year — the phenomenon known as fiscal drag. Failure to compensate for that trend would imply a deflationary policy.

This may be the Chancellor's last Budget. In it, he has the opportunity to add substance to his claim to be a tax-cutter.



Treasury figures show that, as a proportion of national income, taxes outside the North Sea oil sector have risen from 35.8 per cent in 1983/84 to 37.1 per cent in the current financial year. For those on average earnings, taxes on individual incomes have been redistributed away from income tax towards increased VAT and National Insurance contributions. But the overall share remains higher than when the Government first took office in 1979.

For a person on three-quarters of male average earnings — for example, a single nurse on about £170 a week — the proportion of the pay packet taken in tax has risen from 43.7 per cent in 1978/79 to an estimated 45.7 per cent in the current year.

The only people whose tax bills have dropped as a percentage of earnings have been those much higher up the income scale, largely because of cuts in the top tax rates announced in Sir Geoffrey Howe's first Budget.

Mr Lawson can claim that the record has improved under his Chancellorship, although the changes are distributional rather than absolute. As companies have contributed a much larger proportion of the overall tax take — partly because of the restructuring of corporation tax in 1984 — individuals have seen a small reduction

But that fall and a series of superficial changes to capital taxes in his last four Budgets do not provide much for the history books when set against the changes seen in countries like the US and New Zealand.

In any event, the consensus in financial markets is that he could announce net tax cuts of £3bn to £4bn, while preserving a "prudent" image. Reductions in income tax could be higher if there is a further shift towards indirect taxation. The imposition of VAT on goods and services ranging from newspapers to commercial construction must be a possibility, as is a substantial increase in the duty on cigarettes and tobacco.

Mrs Thatcher has vetoed many of the more radical options — such as the imposition of VAT on food and fuel or the abolition of mortgage interest relief — but Mr Lawson can hardly claim that such extra cash is essential.

He has yet to decide on the Budget's final shape, but the forbidden gossip in the corridors of Whitehall suggests that a 25p basic rate and a top rate of perhaps 45p are among the options near the top of the list.

An immediate shift to independent taxation of husbands and wives is not technically feasible — the Inland Revenue's sophisticated new computers take 2 years to reprogramme — but the Chancellor can claim advance credit for such a move.

Whatever Mr Lawson decides to include in his package next month, past experience suggests he will do his utmost to make the wrapping look exciting.

OBSERVER

Waldheim will go

■The details have become almost irrelevant. President Waldheim of Austria will have to step down, and probably sooner rather than later.

The clearest indication so far came when Chancellor Vranitsky appeared on Austrian television yesterday and said that he was having to devote about 60 per cent of his time to the Waldheim affair. There was a pretty strong hint that if Waldhaim does not go shortly, Vranitsky will.

The situstion has become reminiscent of the last weeks of President Nixon in the US. It was not the extent of Nixon's involvement in the Watergate business that was any longer the main question. It was the fact that he was implicated at all and that he had reacted to accusations that turned out not to be wholly false with a series of cover-ups. The normal processes of government became impossible and Nixon had to go. Exactly the same is happening to Waldheim.

My personal opinion is that Waldheim should never have been President in the first place. He had been secretary general of the United Nations for so long (1972-82) and before that had been so engsged in foreign policy as a diplomat and, briefly, Foreign Minister, that he had become out of touch with opinion at home. He had forgotten, if ha had ever known, what modern Austria was like. Hardly anyone there knew him.

Moreover, his period as secretary general coincided with Bruno Kreisky staying too long as Austrian Chsncellor. The two men had almost nothing in common — certainly not in domestic politics — save for one important factor. They both thought that Austria could play a role in foreign policy way out of proportion to the country's size and, in particulsr, both seemed to fsvour, no doubt for the best of reasons, the Arabs rsther than tha Jews in the Middle East.

Austrian opinion grew weary of such pretentiousness. It did not like Austrian leaders treating the country as some kind of special state — s bridge between east and west and the last remsining example of Mittel Europa. Still less did it like the idea of Austris taking on the role of Middle East peacemaker.

Whst it wanted, and still wants, was to join the European family. That means the west European family. Most of it, apart from Switzerland and Sweden, is in the European Community, which la where Austris would like to belong. Vranitsky and some of the younger generation understand that. The prospect of Europe going ahead with the completion of the internal market by 1992 — without Austria — makes them feel very lonely. Kreisky and Waldheim, by contrast, belong to the past.

Imperial cup

■There is, however, a rather nicer story about Austris doing the rounds. First told by Reginald Thomas, tha Austrian Ambassador who left London at the end of last year, it is still worth repeating.

Otto von Hapsburg, an heir to any restored monarchy, was asked whether he was going to the Austria-Hungary football match.

"No," he replied, "but how interesting. Tell me: whom are we plsying?"

Grave thoughts

■The weekend was spent at two funerals: one for my father who died at s reasonably old age after having been in hospital for some months; the other for someone who had been best man at my wedding and had recently been in great pain.

Two thoughts stand out. One was the unanimous praise from everyone involved in either case for the health service.

"Good heavens — under This Week's *Events* — Strikes and Cancellations."

Although the two hospitals were far apart — one in London, the other on Tyneside — the care was excellent throughout, and so was the friendliness towards patients and visitors. It was as though the health dispute was not going on.

The other thought was how touched people are when the mourners come. My mother said — I think without conscious irony: "Your father would have loved it, if he had been here."

Festive strike

■The Ford strike, if not exactly a Euro-diapute, is certsinly European in its effects as Ford plants on the continent begin to slow down their production.

The mood of Ford's Continental workers appears to differ from plant to plant, according to Collin Gonze, who, as co-ordinator of the automobile department at the International Metalworkers' Federstion in Geneva, has been keeping a watching brief on developments.

The French and Spanish are nnt much interested because neither are seriously sffected: the Belgians are miffed at the layoffs but are not quite sure with whom; and the Germans are *miffed*, too, and quite definitely with the management.

The German ire is not aimed so much at British management with which they are hardly impressed, but st their own which has been using the spare time brought about by the dispute to introduce Employee Involvement lectures, something which the German unions had earlier rejected

Gonze described the EI lectures as "ikky". "It's a bit like the Salvation Army and it's not appreciated," he said. Still, salvation is at hand for the Cologne workers who may see themselves laid off in the next few dsys. Gonze explains: "A festival is running all week, so they will be bent on a good time anyway. I would be surprised if many bothered to wait until Wednesday."

Tie-break

■If memory serves me right, it is the famous Rose Monday todsy when there sre all sorts of processions and psgeants mounted on trucks like a British student rag day. This is followed by Shrove Tuesday, when the celebrations continue, and by Ash Wednesday, when there is a special tradition on the Rhine of ladies cutting off men's ties at the knot as a symbol of triumphant castration.

British civil servants posted to Bonn never believed how seriously the Germans took all that until they saw it in action. One Shrove Tuesday, a British official was sent to the Economics Ministry to protest at some aspect of German policy. A senior adviser to the Economics Minister eventually emerged and took down the complaint word for word without removing either his red nose - those were the days before Comic Relief — or his false moustache.

Disability

■Graffito in a West Midlands social security office: "I wanted to be an osteopath, but I was bone idle."

David Buchan and Tim Dickson report on the breakthrough in EC budget negotiations

An end to the nay-saying

IT SO NEARLY failed. At midnight on the final day of the special Euro-budget summit in Brussels, Chancellor Helmut Kohl, of West Germany, told his fellow leaders that as chairman of the European Council he had no choice but to wind up 26 hours of negotiations, record that only 11 of their number could agree on a deal and send them home.

"We were over the brink," said one of those present. Yet again, it seemed Mrs Margaret Thatcher, the British Prime Minister, would leave a European Community summit in a minority of one.

It was at that point, when heads of government, foreign ministers and officials thought they were slamming shut their dossiers for the last time, that Mr Felipe Gonzales, the Spanish Prime Minister, called for a few minutes reconsideration by all parties.

Mrs Thatcher left the room to hold one last parley with her advisers. She returned and, without a single further concession to her on the table, announced she would follow the Netherlands, her staunchest ally on farm reform, in conditionally approving the EC package.

This was how the British Prime Minister – after years of nay-saying – joined her fellow leaders in the European Community's first accord since 1984 on budget reform, one designed to last until 1992.

Nothing about the deal is carved in stone. Some remaining farm production "stabilisers" (automatic price cuts once production limits are breached) caused an Anglo-French row in the closing hours of the summit. These await approval in a week's time before the British and Dutch give their full blessing to the package. In the coming months all 12 national legislatures will have to ratify the deal.

But it now seems the community can at last lift its sights above household accounting squabbles.

In a world where food surpluses and shortages occur in all the wrong places, the EC can claim that it has made a real effort to master its chronic surpluses. This should ease trade tensions with the US and other food exporters.

European farmers will, for the first time, face automatic price cuts on such staples as cereals if their harvests exceed certain limits and, in an important initiative, they will be paid to "set aside" land from arable production.

Failure at the summit, as Mr Kohl warned last week, would have meant the community's "no longer being taken seriously on the international stage". Certainly, success is likely to cause a sigh of relief on the part of the EC's most important world partners, who were concerned that it might become permanently becalmed by contemplating its budgetary navel.

Viewed from Brussels, the real significance of the summit is that the community can now concentrate on the ambitious plan to link its 320m population in a single integrated market by 1992. Continued sparring over money would have lowered the chances of agreement on the several hundred directives and regulations still needed to bring down the remaining barriers.

More particularly, the community's poorer regions – chiefly the Mediterranean south plus Ireland – have demanded more structural economic aid as the price of letting the north's more competitive industries, barrier-free, into their markets. The budget accord, which runs over the same five-year period as the EC internal market programme, contains an 80 per cent increase in community structural funds – to Ecu13bn (£9bn) by 1992.

It is small wonder, then, that Mr Gonzales, leading the largest of the EC's poorer member states, was prepared to sit on into early Saturday morning to get an accord.

But his plea for a final effort would have merely prolonged failure by another hour if "Maggie", as she is known in every community language, had not decided to stop saying no.

At some time on Friday evening she seemed to change heart and heed the growing consensus among her advisers and, apparently, the counsel of Mr David Williamson, her former EC specialist at Downing Street and now secretary general of the Commission.

Their view was that she could push her partner states no further. As EC president, Mr Kohl had made concessions on agriculture that he had not been ready to make as a purely national leader last December at Copenhagen. And, by the time of the Hanover summit in June, the UK might have lost the Dutch as an ally and Spain and some smaller states as sympathisers.

Their support for Mrs Thatcher helped outgun Mr Jacques Chirac, the French Prime Minister, when he sought to filibuster on non-arable product stabilisers. He was probably acting with an eye on this spring's presidential elections.

The way is now clear for the community to negotiate a 1988 budget (instead of trying to make do at 1987 funding levels). The summit accord replaces the (long broken) budget ceiling of 1.4 per cent of a notional EC value added tax base with a new one of between 1.2 and 1.3 per cent of community gross national product. Under the former VAT formula, this translates into 1.9 to 2.0 per cent.

Such a sharp increase in EC resources, while less than others were hoping to achieve, may be hard for Mrs Thatcher to defend in the Commons, as will be the increase in structural funds. She will no doubt stress her diplomatic victory in maintaining the famous rebate on the British budget contribution and claim that she has established new principles for taming the Common Agricultural Policy.

But given her dramatic climbdown on several apparently crucial aspects of the farm package, has the community yet again failed to restrain this area of spending?

Enthusiasts in Brussels point out that the commitment to overall budget discipline in agriculture and the introduction of the much trumpeted system of budget stabilisers, the automatic price cuts if farmers exceed production limits, will be seen as the great achievements of the summit.

They admit that budget discipline has not worked well in the past – the fall of the US dollar and the unrelenting growth of surpluses, notably butter and beef, made a mockery of a similar deal in 1984. But this time the size of the strait-jacket, or "guideline" as it is known, has been spelt out from the beginning. It will not be allowed to rise each year by more than 74 per cent of the community's average growth in gross national product, except where currency fluctuations have a particularly distorting effect.

The new guideline has been fixed at Ecu27.5bn for 1988, compared with the official figure for farm expenditure last year of around Ecu26.3bn. These numbers, however, do not tell the whole story since the actual amount in 1987 was considerably more and only "reduced" by some neat accounting footwork. The figure for this year does not include the amount needed for stock disposal on world markets, which will be classified as a separate item.


Mrs Thatcher: heeding the growing consensus

The job will not be made easier by the watering down of the Commission's original package of stabilisers: a process which started with compromises on non-arable products, like wine and tobacco, and culminated in Mrs Thatcher's concessions on crop production. She accepted a production ceiling for the cereals sector of 160m tonnes for the next four years, compared with the 155m tonnes to which British ministers had previously seemed staunchly committed.

Arguments will no doubt rage as to the cost of this concession, the impact of the 3 per cent price cut to be imposed on production over the limit (although only in the following marketing year) and the effectiveness of the measures to be taken for that other most politically sensitive of sectors, oilseeds.

The point is that nobody should have believed in the first place that the CAP – which remains an open-ended, legal guarantee to support farm prices – could suddenly be brought under control by a mechanism so seductively simple as "binding and effective" stabilisers. The measures agreed this weekend will only be judged successful if they give the right psychological message to community farmers: that the kitty is in danger of running dry. On their own, and even if they had been tougher, stabilisers would be little match for record harvests or the productivity gains and yield increases made possible by technological advance.

The other big lesson of the negotiations is that the EC's political attachment to farmers and the countryside remains remarkably firm. A study of public attitudes to agriculture, published by the European Commission earlier this month, demonstrated a surprisingly high degree of support for farm subsidies, European protectionism and the "special" position of those who live on the land. The findings help explain why France and West Germany have refused to budge significantly in the face of Britain's more market-oriented approach and why the community is coming to rely on production-curbing measures, such as the set-aside scheme, as the only realistic long-term solution.

Puzzlement over why Mrs Thatcher put her name to the "historic" deal will remain. The need to push ahead with the internal market was one incentive, the satisfactory renegotiation of the British budget rebate was another. And, after all the talking, perhaps she has a deeper awareness of the underlying political realities.

Lombard

How Nigel can remit £5bn

By Samuel Brittan

THE HEADLINES will be proclaiming a giveaway UK Budget on March 15. But it will be so only for a public which is conditioned to the Government taxing away an ever greater proportion of its income, and which regards any temporary departure from this trend as a bonanza.

Nearly £2bn of tax cuts will be required to offset real fiscal drag – that is, the automatic rise in the proportion of income taken in tax as the economy grows. A similar sum is required to offset the slightly declining share of public expenditure in the national income. But even after total remissions of nearly £4bn per annum the Public Sector Borrowing Requirement (PSBR) will probably be completely eliminated and replaced by a modest surplus.

This will be neutral only in the very limited sense of preserving the same fiscal outcome in 1988-89 as is likely in 1987-88. Whatever Nigel Lawson does, the fiscal stance will still be far tougher than the Government expected in its own Medium Term financial strategy, and far tougher than in the other major OECD countries, including Germany and Japan, even after allowing for privatisation.

Just how dramatic recent developments in UK government finance have been is explained by Mr Gavyn Davies in the latest Goldman Sachs Economics Analyst. In the 1986 Financial Statement, the Treasury projected non-oil revenues of £170bn for 1988-89. The prospect now for 1988-89, Goldman Sachs says, is £187bn.

How did the Treasury's forecasting error arise? According to Goldman Sachs some £11bn of it was because the national income in money terms – nominal GDP – rose faster than expected. The other £6bn of the undershoot is because the Treasury underestimated fiscal drag.

What has the Government done with the additional revenues? Followers of the political debate might be surprised. In fact, of the £17bn overshoot in non-oil revenues, some £8bn has gone into increased general government expenditure and another £8bn will probably go to reduce the PSBR. Total tax cuts are likely to be only slightly higher than projected in 1986.

How about the argument that higher public sector savings are required to release resources for investment and the balance of payments? The answer is that we have already had a large – and unanticipated – swing towards savings in the public sector. To push this trend further could easily result in an offsetting decline in private savings, which have already been falling as public sector borrowing has declined.

Would it not be better to eschew further fine-tuning and settle for a roughly balanced Budget which would put the Chancellor in an excellent position to move in either direction in the face of a future shock? In the meanwhile, is it too unreasonable to expect monetary policy to bear the burden of fighting inflation? The 1988 Budget is almost certainly Mr Lawson's last chance to introduce the tax reforms on which he has set his heart. If, against the odds, he were to announce a credible *medium term* exchange rate objective – involving you-know-what – he would be amply justified in introducing tax remissions of £5bn to facilitate his reforms.

Without the exchange rate backstop, then the pessimists who believe that the 4 or 5 per cent real growth rate achieved in 1987 was an aberration, for which we shall have to pay heavily in 1988 or 1989, will be vindicated. But they will be vindicated even if the Chancellor introduces an ultra-cautious Budget with zero tax remission and an increasing actual tax burden.

Letters to the Editor

High rates do harm

From Mr Tim Johnson.

Sir, Can I plead with Samuel Brittan to examine the alternative case on interest rates? Could he look at the proposition that high rates actually do more to cause the inflation and excess demand he deplores than to check them?

Surely, whatever the classical theory says, in the real world raising interest rates does more to increase the money supply than to reduce it. Higher rates increase the velocity of money; the incentive to keep money working is three times as strong in the UK as it is in Germany. They suck cash into the country, forcing us to run a trade deficit to compensate.

Increased interest rates also increase the profitability of lending money, because they tend to increase the margin between borrowing and lending. Thus the finance houses are encouraged to create ever more ingenious credit instruments. The result is more consumer credit, not less.

Could it be, in the endless circulation of the economic system, that high interest rates are as much a cause of high inflation as a consequence? Should we not be looking to break the circle by bringing down interest rates, which are relatively easy to control, rather than trying to squeeze inflation out of the economy through high unemployment and the impoverishment of the "under" class?

Tim Johnson,
14 Penn Road, N7

Markets are the matchmakers

From Mr Charles Smedley.

Sir, Mr William Wallace indicates (Letters, February 10) that "ideological free traders" are out of date.

Those of us who have watched markets of any kind, whether simple food markets in Java or sophisticated futures markets in Chicago, are often surprised by their actions but rarely dissatisfied with their ability to match buyer and seller – that is, to match supply and demand.

Not only that: the market pricing system corrects any serious aberration (shortage or glut) in a relatively short time, unless a government interferes. OPEC, the Tin Council and the Common Market Agricultural Policy are three examples.

Similarly, those who monitor government-controlled activities are continually disappointed in their performance. Why do we have such interesting debates on the National Health Service or on education if it is not because the Government finds it hard to match supply and demand?

Perhaps Mr Wallace is right when he says that the logical conclusion of the free market is that the inherent inefficiency of government is no less marked in the administration of defence, or justice, than in its attempts to police markets.

Finally, he demands a convincing explanation why bureaucrats in East Asia apparently have an impact on their economies different from the effect of bureaucrats here.

It may be unfair to point out that Hong Kong is one of the free trade areas of the world, with a phenomenal growth rate in GNP, supporting a large and ever-growing population on a rocky outcrop from mainland China. It is, however, fair to note how different, say, Japan's culture is from that of the UK. The history of liberalism and the development of rights of the individual, as reflected in the UK and the US, are not common to East Asian nations.

Any review of the impact of bureaucrats on East Asian economies might include comparisons with government-dominated European economies – such as the UK and France – as well as with free trade/free market economies in the same geographic area.

It will also be interesting to monitor the speed at which corporations in the still relatively free market economy of the US turn around after their recent beating by European and Far Eastern companies. I think Mr Wallace will be surprised.

Charles Smedley,
5 Routh Road, SW18.

No substitute for subtitles

From Mr Clifford H. Haslam.

Sir, Affection for your Arts page, its opera reviews in particular, is saddened by Max Loppert's continuing attitude of contempt for the Royal Opera's occasional use of English subtitles (his review of *Parsifal*, January 30).

I wish Mr Loppert could be persuaded to appreciate the tremendous gain these subtitles represent for the opera lover who has not been able to devote his or her life to the study of, say, German, and the operas of Wagner. I believe that for most members of an opera audience there is no comparison between studying the Parsifal book beforehand, as suggested by Mr Loppert, and being able to follow the detailed argument of the plot with – only slightly distracting – subtitles.

This new system is now universally adopted on the west coast of the United States. For many people attending the magnificent *Ring* cycle of Wagner operas in San Fransisco in 1986, as I did – and the recent *Mehta/Miller/Hockney Tristan* in Los Angeles – it is the most important technical development in opera since opera singers had to learn to act.

I would not only invite the Royal Opera to use the system more often, but would implore the magnificent English National Opera to abandon its only crime against the arts – the use of English translations in foreign operas. It should adopt subtitles.

Clifford H Haslam,
Aida 51,
San Angelin,
01060 Mexico DF.

The radio proposals will merely create another radio authority

From Mr H.A. McGhee.

Sir, As someone with 40 years' experience in broadcasting matters, I have been following Mr Douglas Hurd's proposals on the future management of commercial and commonity radio broadcasting with great interest, not to say some dismay.

There are some points to make about his present proposals.

First, the concept of many more commercial and community stations is an excellent one.

Second, in respect of "single frequency," the Home Secretary's statement is unsound – and indeed, what is new about single frequencies? Many of us grew up with "the Light Programme" and "the Home Service" with a spot on the dial for each. However, to cover the country, each service required several frequencies to give proper signal strength. This will be so for the three proposed national channels.

The single frequency concept, which worked so well in the past for the BBC, now works well for local radio. Londoners know where Capital Radio is on the receiver dial. There is duplication on medium wave (MW) and frequency modulation (VHF) but this is a result of the gradual change over to VHF – which gives better 24 hour coverage – and reflects the time taken to engineer the VHF system and to change listeners' tuning habits. What does not work is, for example, schools programmes intruding into Radio 4 VHF, or vice versa.

Following on from this is the Home Secretary's desire for the three national channels to offer a "diverse programme service calculated to appeal to a wide variety of tastes and interests and not limited to a single format". Given his desire for "single frequency" broadcasting, this is not compatible with listening habits because people like to know what programme diet to expect when they change stations.

Third, the concept of a radio authority taking over the Independent Broadcasting Authority's role for radio is surely unnecessary when the laudable "light touch" control is implemented. This can be achieved by direct instruction to the chairman of the IBA. If desired, a radio authority could be set up in parallel with a television authority within the IBA; radio's chairman and director general could draw on the resources of the television director general, and the not inconsiderable infrastructure, to serve both authorities.

Fourth, Mr Hurd's proposals, eagerly awaited by the broadcast industry, will require an engineering overview. The actual ownership of the transmitters is not a matter of disagreement. The present forward funding arrangements are satisfactory. But the current proposals completely underestimate the problems of establishing and co-ordinating all the transmitters of the present commercial radio system – and there are many – with the requirements of the country-wide service of the BBC.

Overlaid upon this are the frequency demands of new services such as low power community radio and the three proposed national channels. If these are to be truly national, then considerable system engineering is called for. (The IBA engineering team at Winchester has to date carried out an excellent job of planning a system in conjunction with the BBC to ensure maximum power – hence better reception for the listener, consistent with minimum interference.

I beg the Home Secretary and his advisers to reconsider their present proposals. As they stand, they merely create another body to do something already possible, given a new "light touch" brief, within the existing establishment. To excommunicate the IBA from radio broadcasting now seems an act of punishment rather than guidance for the future.

Harry McGhee,
7 Eaton Row, SW1.

FINANCIAL TIMES

Monday February 15 1988

Janet Bush on Wall Street

New battle brews over bank bill

THE GLASS-Steagall debate is hotting up again. The argument over whether the barriers between the business of commercial banks and securities brokerage houses should be torn down has, of course, blown hot and cold for most of the 55 years they have been in place.

This time, however, it looks as though things may come to a head despite what seems like some last minute forays by some anti-repeal pockets in Congress.

The prospect of realistic and substantive legislation was raised last November when Senator William Proxmire, Chairman of the Senate Banking Committee, and Senator Jake Garn, leader of the committee's Republican minority, jointly introduced a bill to repeal the Glass-Steagall Act.

Time horizons in Congress can drift ever outwards or telescope at great speed. It seems now that the death of Glass-Steagall, contemplated for so long, will now be swift.

The Proxmire/Garn bill, while not all-embracing, has widespread support not only from the banks themselves, who must feel that they have been gearing up their securities capabilities for an age, but also from the key regulatory agencies – the US Federal Reserve and the Securities and Exchange Commission.

All that is left as the Glass-Steagall bill gets more dog-eared and tattered by the day is a rearguard action by the Securities Industry Association, some apparently hopeless opposition from the insurance and property industries whose ambiguous position will not be addressed by the Proxmire/Garn proposals and some jockeying for position by the gradualists who may or may not include, according to how cynical you are, some politicians who favour a continued securities industry monopoly.

The prospect of a squabble between the House and Senate Banking Committees emerged last week with the tabling of a rival bill by Representative Charles Schumer, a Democrat from Brooklyn. This would give the banks additional powers only to underwrite commercial paper and mortgage-backed securities.

According to those supporting the Schumer bill, it has much more support than the Proxmire proposals. One official, who declined to be named, cited rumours in Washington that Senator Proxmire could not even count on the vote of his co-sponsor Jake Garn who had changed his mind about the bill. He wasn't sure why.

The Senate Banking Committee naturally dismisses the bill as the most obvious spoiling tactic and intends to discuss its own bill within the next 10 days amid high hopes that it will attract broad support and be presented to President Reagan for signing "within weeks rather than months."

The need for urgent and clear-cut legislation has intensified in the light of an appeal court ruling last Monday which upheld a lower court decision to allow seven large banks to underwrite a variety of debt securities including commercial paper, municipal revenue bonds and securities backed by various assets such as mortgages and credit card receivables.

That decision comes only two weeks before a Congress-imposed moratorium on any extension of bank powers is due to expire on March 1, making the court's authorisations very real indeed. Nobody expects this moratorium to be extended.

Even the Securities Industry Association says it has not lobbied for an extension although it is considering appealing against the ruling which clearly undermines attempts to control the pace at which Glass-Steagall is dismantled.

The General Accounting Office, the independent government watchdog, last week urged a gradualist approach to the repeal of Glass-Steagall which would allow the proper regulatory structure to be put in place and for banks to build up the necessary capital to finance their new securities operations.

Mr Charles Bowsher, the Comptroller General who heads the GAO, told Congress last week that the GAO favoured a plan in which banks would initially only be allowed to commit 5 per cent to 10 per cent of their total business revenues to securities activities.

Despite its sense of caution, the GAO does not seem to favour an extension of the moratorium after March 1 because that would freeze into the system existing inequities in which some banks have managed to get through loopholes in the act and others haven't. Congress must move as quickly as possible, it believes, consistent with sensible policy-making.

The banks sense victory and seem to be keeping quiet in order not to jeopardise the bill's passage through Congress.

Howe to resist Kremlin call for arms cuts

BY ROBERT MAUTHNER, DIPLOMATIC CORRESPONDENT, IN LONDON

SIR GEOFFREY Howe, the British Foreign Secretary, who flew to Moscow last night for a four-day official visit, will tell Soviet leaders that Britain will not negotiate reductions in its nuclear arms even if the US and the Soviet Union agree on a 50 per cent cut in their strategic weapons.

Sir Geoffrey, who is scheduled to have talks with both Mr Eduard Shevardnadze, the Soviet Foreign Minister, and Mr Mikhail Gorbachev, the Soviet leader, is expected to resist pressure from his hosts to give a firm undertaking on future reductions in the British nuclear deterrent.

Though the principle of a cut in British nuclear arms in the longer run has never been rejected by London, the point at which Britain would agree to put its deterrent on the negotiating table has been left deliberately vague.

Mrs Margaret Thatcher, the British Prime Minister, has said that the two superpowers would have to go "enormously further" than their planned reductions of 50 per cent in strategic nuclear weapons before Britain would allow its future Trident submarine missile system to be touched.

The British position is fundamentally the same as that of France, the only other Western European nuclear power, which has also said that a strategic arms reduction treaty (START) providing for 50 per cent cuts would not be sufficient to trigger talks on reductions in the French nuclear deterrent.

The Foreign Secretary's stand will hardly come as a surprise to the Soviet leaders, but it is not expected to prevent them from emphasising their opposition to the planned modernisation of Britain's nuclear deterrent at a time when the superpowers are proposing to halve their strategic arsenals.

The replacement of Britain's ageing Polaris submarine missiles with the US-built Trident system must, by now, be taken as a "fait accompli" by Moscow.

However, Soviet officials are credited with a proposal that Britain should strictly limit the five-fold increase in warheads that the modernisation scheme would normally entail.

Sir Geoffrey, who is to visit Kiev, the Ukraine capital, after being received by Mr Gorbachev oo Tuesday, is also expected to sound out the Soviet leaders on what kind of interim arrangements they want to see in Afghanistan after the planned withdrawal of Soviet troops. Other important issues on the agenda of the Moscow talks include the latest Middle East peace initiative by the US,

Indian Prime Minister Rajiv Gandhi (right) stands with leading members of his cabinet during the induction of new ministers yesterday. They are, from the right, Buta Singh, Home Affairs Minister and now sole cabinet representative of the Punjab, Shiv Shankar and Vasant Sathe

Gandhi reshuffles government and rules out early election

BY K.K. SHARMA IN NEW DELHI

MR RAJIV GANDHI, the Indian Prime Minister, announced a big government shuffle yesterday and quashed speculation that he was about to call a snap general election.

He did not switch key ministers but made 15 changes, bringing in or changing 13 members and dismissing two.

Mr Gurdial Singh Dhillon, from the agriculture ministry, was one of those dismissed. His exclusion is important because as a Sikh he represented the troubled state of Punjab whose sole representative in the cabinet now is Mr Buta Singh, the Home Affairs Minister.

The cabinet still has an unfinished look, according to observers, but this is likely to be the team with which Mr Gandhi will lead his Congress (I) party into the national polls to be held before December next year.

As ministers were being sworn in, Mr Gandhi ruled out speculatioo that fresh parliamentary elections were in the offing. "I don't see elections on the horizon," he said.

This was the 10th time he has reshuffled his team since parliamentary elections in 1985. Despite the two new appointments, which come just a week before parliament's three-month budget session, there is still no foreign minister of cabinet rank and Mr Gandhi continues to hold the foreign portfolio.

Some ministers hold two senior portfolios, notably Mr Narayan Datt Tiwari, who is cabinet minister for both the finance and commerce departments. Other senior cabinet ministers keep their jobs, including Mr Krishna Chandra Pant, Defence Minister and Mr Buta Singh.

Among the new appointees are Mr Moti Lal Vohra, former chief minister of Madhya Pradesh and Mr Bindheshwari Dubey, former chief minister of Bihar. Both men resigned their ministerial posts in the Hindi heartland of northern India on Saturday. They quit after prolonged criticism that they had failed to tackle important issues in these states.

These are thought to be part of a series of changes that Mr Gandhi has planned among leaders of Congress-ruled states, the first having come a month ago when Mr Hardeo Joshi was dropped as chief minister of Rajasthan and superseded by Mr H. Mathur.

Mr Vohra has now been made cabinet minister for health and family welfare, and Mr Dubey cabinet minister for law and justice, both portfolios of less than first rank. Of the 60-strong council of ministers, 16 have cabinet rank.

Most of the other changes are at junior minister rank and part of a rearrangment of portfolios at cabinet and lower levels.

Greater disruption predicted for Ford

By Charles Leadbeater in London

FORD UK appeared at the weekend to be preparing for a lengthy national strike and British union officials predicted that the stoppage by more than 32,000 manual workers would soon lead to deepening disruption in the company's operations in continental Europe.

White-collar nnion officials said that during talks with management last week – on the company's radical three-year pay and conditions offer – senior managers indicated that they expected the strike to last five to six weeks.

It ia now widely expected that the company will not approach the unions for further talks until some of the momentum behind the stoppage, which started a week ago, has dissipated.

White-collar workers are not involved in the strike, but union officials said they expect negotiations to come to a head tomorrow when the company is expected to table its final offer to the 12,000-strong white-collar staff.

Meanwhile, union officials detailed, on the basis of contacta with their continental counterparts, the deepening disruption they foresee for several plants:

●The company's transmission and axel plant at Duren, in West Germany, will have to lay off workers today or tomorrow due to a shortage of parts from the UK.

●The Escort and Orion assembly plant at Azambuja, Portugal, will soon face serious shortages of a range of UK supplied components, such as radiators and instruments.

●Managers at the Saarlouis plant, West Germany, which manufactures Escorts and Orions, will soon have to consider lay-offs among staff who were last week sent on training courses as a result of a 25 per cent cut in production. The workers are on full-pay while output has been reduced and the working day shortened by 90 minutes.

●The unions also predict that workers at the Cologne engine plant will be laid off on February 17 and the plant's Scorpio line could be disrupted from March 4. Production at Cologne is traditionally cut during one week in early February to allow workers to take part in a carnival.

UK white-collar union officials who visited the Cologne plant last week said West German union officials were highly sceptical of company plans to find alternative continental components suppliers.

Shamir rejects US peace plan

BY ANDREW WHITLEY IN JERUSALEM

MR YITZHAK SHAMIR, the Israeli Prime Minister, has made it clear that he totally rejects the US "peace for territory" formula. This rebuff came 10 days before Mr George Shultz, the US Secretary of State, was to start a Middle East peace mission.

The right-wing leader's rejection of the latest US thinking about the occupied territories is matched by Syria and the Palestine Liberation Organisation, though for very different reasons.

In a spate of orchestrated leaks to the Israeli media, the prime minister's office revealed over the weekend that Mr Shamir would not bodge from his Herut Party's long-standing refusal to withdraw from any of the territories Israel has controlled since 1967.

Mr Shamir, who faces what promises to be an exceptionally close general election in the next nine months, has also ruled out Israeli participatioo in an international conference on the Middle East, or the accelerated timetable at the core of the US plans.

Even so, as the Prime Minister digs his heels in deeper, a growing protest movement within Israel over the army's handling of the unrest in the occupied territories has highlighted the way in which Israeli society is becoming polarised.

Large demonstrations were held over the weekend by three separate groups in different locations: the left-wing Peace Now movement in Jerusalem, Israeli Arabs at Haifa and the Druze in their Golan Heights homeland.

More than 1,000 armed members of the security forces were drafted into the Golan Heights for the day, to combat an expected outburst of violence from the Druze, a breakaway Moslem sect strong in Lebanon and parts of Syria.

Of particular coocern to the security authorities is the fact that the Druze, usually loyal to the Israeli state, hsve begun to express open solidarity for the Palestinians in the occupied territories.

Thatcher mounts defence of EC deal

Continued from Page 1

provisional and will fall unless last-minute issues raised by the French, involving price-cutting arrangements on seven Community products, are satisfactorily concluded at a meeting of the Foreign Affairs Council in Brussels next week.

Mrs Thatcher was openly angry at the French tactics and tried unsuccessfully to have the agreements on price stabilisers – thought to have been finalised at the Copenhagen summit – thrashed out between Foreign Ministers at the end of the meeting.

Two-and-a-half months away from the presidential elections, Mr Francois Mitterrand and Mr Jacqnes Chirac succeeded in preserving a united front, in the defence of French agriculture.

The two leaders are able to return to Paris with a compromise agreemeot. Failure would have exposed them to the taunts of Mr Raymond Barre, their main rival in election, who has made Europe one of the principal themes of his campaign.

The French did make several concessions, with the increase in the volume of structural aid to the poorer regions closer to the doubling demanded by the southern nations than to the 50 per cent sought by Mr Chirac.

Italian Government Ministers, distracted by the country's political crisis, nevertheless expressed strong satisfaction at the weekend.

Farmers' leaders, however, were strongly disenchanted, complaining that the settlement was "unbalanced."

Protracted negotiations between the European Council of Ministers, the Commission and the European Parliament on the deal's implications are now likely.

The Netherlsnds has also made its agreement to the entire summit package conditional on agreement at that meeting.

Banks' London units attacked

Continued from Page 1

ascribed to "unexpected and stiff competition" in the London capital markets. Two of the investment banking firms required "substantial" capital injections in 1987

However, the report stresses "that the problems experienced have not, to date, appeared to be serious enough to jeopardise these banks' operations in the US."

Mr Richard Fogel, assistant Comptroller General at the GAO, said: "We put these examples in the report to emphasise the need for strong internal controls if banks get involved in the securities business."

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	13	55	Dubrovnik	S	17	63	Malta	S	15	59	Rhodes	F	13	55
Algiers	S	17	63	Edinburgh	C	5	41	Manchester	C	12	54	Rio de J'o	C	27	81
Amsterdam	C	7	45	Faro	C	16	61	Manila	F	33	91	Rome	S	14	57
Athens	R	10	50	Florence	F	11	52	Melbourne	F	22	72	Salzburg	S	3	37
Bahrain	C	20	68	Frankfurt	S	5	41	Mexico City	F	23	73	San Francisco	F	[illegible]	[illegible]
Bangkok	S	32	90	Funchal	R	13	55	Miami	C	19	66	Seoul	S	2	36
Barcelona	S	13	55	Geneva	S	3	37	Milan	S	9	48	Singapore	R	29	84
Beirut	—	—	—	Gibraltar	C	15	59	Montreal	Sn	-3	27	Stockholm	C	2	36
Belfast	R	6	43	Glasgow	F	5	41	Moscow	—	—	—	Strasbourg	S	6	43
Belgrade	F	7	45	Guernsey	S	9	48	Munich	S	3	37	Sydney	R	28	82
Berlin	S	5	41	Helsinki	C	0	32	Nairobi	—	—	—	Taipei	C	19	66
Biarritz	S	20	68	H. Kong	C	21	70	Naples	S	13	55	Tangier	S	17	63
Bombay	F	28	82	Innsbruck	S	0	32	Nassau	C	26	79	Tel Aviv	F	17	63
Bordeaux	S	13	55	Inverness	C	4	39	New Delhi	F	15	59	Tenerife	S	21	70
Brussels	S	10	50	Islamabad	C	18	64	New York	F	-3	25	Tokyo	S	8	46
Budapest	S	8	46	Istanbul	R	5	41	Nice	S	13	55	Toronto	Sn	-6	21
B. Aires	C	25	77	Jakarta	F	31	88	Nicosia	S	17	63	Tunis	C	11	52
Cairo	C	19	66	Jersey	S	11	52	Oporto	S	14	57	Valencia	S	13	55
Cape Town	S	25	77	Jo'burg	F	24	75	Oslo	C	3	37	Venice	S	8	46
Caracas	C	29	84	Lima	F	26	79	Paris	C	9	48	Vienna	C	4	39
Casablanca	S	11	52	Lisbon	S	14	57	Peking	S	-1	30	Warsaw	F	4	39
Chicago	R	3	37	London	S	11	52	Prague	S	4	39	Washington	F	-2	28
Cologne	S	7	45	Los Angeles	C	24	75	Reykjavik	S	0	32	Zurich	S	2	36
Copenhagen	C	4	39	Luxembourg	S	5	41								
Corfu	S	17	63	Madrid	S	11	52								
Dallas	C	-7	19	Majorca	S	15	59								
Dublin	C	6	43	Malaga	S	16	61								

Readings at mid-day yesterday

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

US Presidential race

Continued from Page 1

main rivals, Mr Richard Gephardt of Missouri, who has toned down his populist rhetoric in a atate with 2 per cent unemployment, and Senator Paul Simon of Illinois

New Hampshire has traditionally been a pollster's nightmare

Mr Gephardt's win in Iowa last week does not seem to have given him the political momentum which would have assured him second place here. However, judging from polling data in the south it has strengthened his position for "Super Tuesday" if he does not suffer a serious rebuff at the hands of New Hampshire's voters.

Mr Simon, who would probably face an early withdrawl from the race if he were to finish a poor third, has riled Mr Gephardt by implying in advertisements that he has changed his position so frequently that he is oot to be trusted.

Former Governor Bruce Babbitt publicly conceded that it will take a miracle to keep him in contentioo now, while Mr Alberft Gore from Tennessee who ignored last week's Iowa cancuses has made only a modest commitment of time to New Hampshire and has adopted the risky strategy of focusing his campaign on the March 20 primaries.

THE LEX COLUMN

Fair shares for pensioners

Pension fund trustees are traditionally resistant to change, and there are perhaps good reasons why this should be so. But the stock market crash and the uncertain outlook for markets worldwide must be prompting them to re-examine the wisdom of committing the overwhelming majority of their assets to equities.

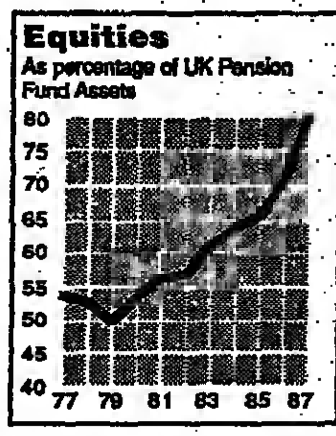
On the face of it the crash, which caught pension funds with a record 85 per cent invested in equities, should have brought home the importance of diversification. Moreover, in a possible future of low inflation and low growth, the assumptions that led to the great swing away from gilts in the hyper-inflationary 1970s could soon look badly out of date.

However, the anecdotal evidence suggests tbat any soul-searching on the part of trustees has not so far resulted in a change in policy. In marked contrast to the US, where several large funds have pulled out of equities altogether, UK funds appear to have been relatively unmoved by the crash. Most reason that if equities seemed good valne last summer on a long term view they cannot be bsd value now. Furthermore, companies which themselves see no decline in their business are less inclined to worry about the effects of bear markets and recessions on their pension funds.

While this somewhat laid-back response to the crash may turn out to be justified by events, the basis for the present balance between equities and gilts is scarcely confidence-inspiring. Indeed, as most funds assess their weightings by reference to an average of what other funds are doing, the whole concept of being over- or uoder-weight becomes alarmingly circular.

Despite the fuzziness of the issue, the qnestion of tbe appropriate balance is becoming increasingly visible. Rolls-Royce, Rank Xerox, and Woolworths are leading a move towards parcelling out tbe assets of their pension funds to specialist managers – which may increase performance overall, but also requires a firm decision by the trustees on how much should go to each.

One approach is to match the lives of the fund's assets with its liabilities. A new model has been developed by investment consultants GMO Woolley, which establishes a neutral mix of gilts and equities according to the proportioo of active to retired members in each fund.



The rationale is that the average life span of retired members, typically five to seven years, is about the same as that of a broad gilt-edged portfolio, whereas the longer liabilities represented by active members are better matched by the average equity portfolio.

This method has the appeal of simplicity, and the advantage of establishing a clear, distinct benchmark for each fund. It also suggests that UK pension funds are heavily overweight in equities at the moment, as the average balance between active and retired members of several large funds would indicate a neutral weighting to bonds of nearer 40 per cent than the present 15 to 20 per cent.

However, the approach is not without flaws. The industry has hitherto resisted attempts to balance precisely the flows of its assets and liabilities, because the latter are not fixed in monetary terms. Given that inflation can wreak havoc with eveo the most conservative actuary's calculations, pension funds have tended to lean towards the more predictable real return which equities offer.

In any event, with or without a new approach by the trustees, the proportion of funds committed to equities is bound to fall as a result of the crash. The steady creep in the share of equities from about 50 per cent in 1980 has been a largely automatic consequence of the bull market. Indeed, for the last seven years, pension funds have committed a dwindling proportion of cash flow to the stock market in an attempt to redress the balance. In thst sense, if pension funds respond to the crash by investing with caution in equities, it will be little change from what they were doing before.

UK bank profits

When Midland Bank opens the 1987 reporting season for the UK clearing banks later this week, it will focus attention once again on one of the more accident-prone sectors of the UK stock market. The clearers have been enjoying bumper profits at home, but this has been more than offset by the need to provide for their earlier expensive forays into Third World lending. The resultant numbers will probably do more to confuse investors in bank stocks than to enlighten them.

The biggest uncertainty about Midland's figures, as with the rest of the banks, is the level of extra provisions it might set against its foreign lending. As a guide, the major New York money centre banks, which are more exposed than the UK clearers, have already decided not to increase their provisions. Taken together with the recent rather surprising warning from the Governor of the Bank of England about the dangers of over-providing, that means the UK banks are unlikely to do anything dramatic on this score.

Nevertheless, even a marginal increase in the level of less developed country provisioning could make a mockery of analysts' predictions, and for this reason it is the level of underlying profits which will be more closely studied. In addition, there are two other pointers which are particularly worthy of scrutiny this time – dividends and capital levels. At a time when valuing banks' LDC lending is unusually complicated, the size of the dividend increase is one of the best guides to the confidence of the management team. Barclays and Lloyds are both expected to raise their annual dividends by around 10 per cent, while NatWest will confirm its premier rating if it raises its payout by the expected 15 per cent. By contrast, even a small dividend increase by Midland would be a surprise, and not necessarily a welcome one.

As for capital levels, there are very few banks in the world which still believe they should be able to finance their growth, or their mistakes, without calling on shareholders for extra funds. The London banks are no exception, and the latest batch of capital ratios will be scrutinised accordingly for clues about the next bank in line to tap the market. Aside from Standard Chartered, Lloyds and Barclays are the most obvious candidates for rights issues; but in its present depressed frame of mind the market would need convincing that this was not throwing good money after bad.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday February 15 1988

INTERNATIONAL BONDS

New issues ignore 'Robinson Crusoe week'

EVEN DURING what became known as "Robinson Crusoe week" – spent waiting for Friday, when the keenly awaited US December trade figures were due – a steady flow of new Eurodollar bond issues was maintained last week.

The appearance in the first four days of six new Eurodollar fixed rate bonds totalling $1.2bn, and a $100m unsyndicated issue for Venezuela thrown in for good measure, testified to the confidence among Eurobond houses that bonds could be placed whatever Friday's data might hold.

Indeed, the policy of launching new bonds ahead of the trade figures looked particularly sound, given the US Treasury bond market's reaction to the announcement of a better-than-expected $12.2bn trade gap in December.

Its rally proved brief, catching out J.P. Morgan Securities which launched a $200m five-year deal for Osterreichische Kontrollbank right at the top of the market.

Syndicate managers agreed that the more attractive of bonds had looked well-placed by the end of the week.

It seems there are still enough investors concerned that they may have missed out on the dollar bond rally this year to keep the money flowing into the Eurodollar sector.

And given the large numbers of Eurobond redemptions due on existing bonds over the next few months, significant amounts of new money will not be required to keep bonds being absorbed over the next few months.

Nevertheless, the demand may be more shallow than it looks. In particular, Japanese buyers do not seem to have returned in force as yet.

This was indicated by a $200m issue for Electricité de France, which was launched on Thursday evening and could easily have been swallowed up by the Japanese over night, but which was, in fact, liberally distributed around Europe as well.

The frequent appearance of Japanese houses as lead managers of straight as well as Japanese equity-linked bond issues this year is a measure not of how much paper is flowing into Japan but rather of the extent to which they have built up international placing power over the past few years.

This is, of course, combined with a willingness to undercut the opposition in price terms.

Since most borrowers are not in dire need of funds at the moment, it is becoming increasingly difficult to combine their borrowing targets with pricings on the bond that investors will find palatable.

This is giving the Japanese a distinct edge. Recent wounding losses on securities trading have, by contrast, made the US and European houses more circumspect round the pricing table than used to be their woot.

The point was well illustrated last week by LTCB International's $250m three-year deal for General Electric Credit Corporation.

LTCB bought the deal at a yield representing a mere 34 basis points over the US Treasury bond yield curve, to the incredulity of the rest of the market.

One syndicate manager said the margin would have had to be at least 10 basis points more generous before he could even have contemplated joining the group.

Boycotted by all the US and Swiss houses, and most of the UK merchant banks, almost all the paper must have remained with the lead manager, which bravely maintained a support bid at the level of the total fees all week.

All three of the Eurodollar bonds issued during the previous week, for New Zealand, Toyota, and Caisse Nationale des Telecommunications, were launched by Japanese securities houses.

It was generally believed in the market that the swap underlying, in particular, CNT's bond must have been handsomely subsidised to achieve its target.

An alternative means of issuing a bond on an off-market pricing, of course, is not to sell it to the market at all.

Swiss Bank Corporation Investment announced on Friday its sole management of a $100m deal for Pepsico, replicating a mechanism it had developed for an issue for its parent company last autumn.

The five-year bond, launched at a margin of 46 basis points over the US Treasury bond yield, would certainly have had a rough time of it in the open market.

Clare Pearson

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	1,173.2	0.0	748.0	5,907.5
Prev	429.6	0.0	0.0	6,234.2
Other	775.7	0.0	0.0	432.9
Prev	851.2	0.0	83.8	496.0
Secondary Market				
US$	22,065.5	1,705.8	7,866.7	6,769.3
Prev	22,514.7	2,097.7	7,793.7	7,374.6
Other	22,990.5	842.7	3,727.0	24,066.8
Prev	23,335.3	750.5	5,837.3	21,226.5

	Cedel	Euroclear	Total
US$	13,027.7	33,208.3	46,236.0
Prev	12,407.2	34,037.3	46,444.5
Other	22,514.0	30,320.8	52,834.8
Prev	21,867.9	30,712.7	52,580.6

Week to February 11, 1988 Source: AIBD

A keenly-awaited mandate is awarded

AFTER THE excitement of the mega-deals for BAT Industries and Eastman Kodak, the Eurocredit market settled back into more normal routine last week.

Crédit Foncier, which borrows with France's guarantee, is understood to have awarded a long-awaited mandate for a $250m credit.

Crédit Suisse First Boston is bookrunner, with Deutsche Bank, Indosuez and Mitsubishi Bank also understood to be mandated.

CSFB could not confirm any details, but the five-year deal is understood to have an annual facility fee of 4 basis points for the first three years and 5 basis points thereafter.

There is no interest margin over London interbank offered rates (Libor), and there are utilisation fees.

The deal, expected to be launched this week, had been keenly awaited for the extent to which Crédit Foncier, which, like many French borrowers drives a hard bargain, would be able to pay a 4 basis point fee. The facility fee is a key element as it represents the straightforward return to banks regardless of whether there are drawings.

In the event, bankers considered the terms reasonable, given that a private sector borrower such as Rhône-Poulenc, the chemicals group, may pay a fee as low as 3.5 basis points for the first year of a $300m facility mandated last week – depending on the extent to which the money is deemed "available."

Annual changes in the minimum "availability" during its life raise Rhône-Poulenc's fee gradually to 5 basis points after three years.

The fees are fractionally more generous to banks than those paid by both borrowers in 1986, as they contributed to a steady downward push.

Then, Crédit Foncier paid 4 basis points for the first five years of a seven-year credit, and Rhône-Poulenc 4 basis points for seven years.

Two more Swedish borrowers are in the market after Saab-Scania's $350m facility was launched last week: Modo, a paper group, has mandated Bankers Trust and Svenska Handelsbanken for a $100m seven-year revolving credit with a commitment fee of 12.5 basis points and a margin over Libor of 20 basis points, rising to 30 after four years.

Seen as more aggressive were terms of a $200m credit for Aga, the industrial gas company.

Merrill Lynch issued invitations into the five-year deal, with a 4.5 basis point facility fee, no margin over Libor flat and utilisation fees of 8.5 basis points if up to one-third drawn, 12.5 basis points above one-third, and 17.5 basis points if drawings exceed two-thirds.

J.P. Morgan is launching a £250m five-year revolver for Halifax Building Society with a 5.25 basis point commitment fee and a margin of 10 basis points over Libor.

The borrower will pay reserve assets costs and will undertake to keep the facility at least 30 per cent drawn on average over each year.

Among other British borrowers, Coloroll Group is to have a £75m facility of which £50m is committed. National Westminster arranged a group of six banks for the deal which has a facility fee of 9 basis points on available amounts and 6 basis points on unavailable, a 15 basis point margin over Libor and a utilisation fee of 5 basis points above half-usage. Hammerson Property's $150m deal has been completed and increased to $200m.

Bombardier, the Canadian transport equipment concern, is to have a $50m floating rate note issuance facility under which it may issue five-year notes over a two-year period.

County NatWest is arranging the deal which has a 10 basis point underwriting fee and a 15 basis point margin over Libor.

Among transactions in the market, Kodak's $5bn credit is understood to be significantly oversubscribed.

Alexander Nicoll

Electrolux plans big global investment

By Christopher Parkes in London

ELECTROLUX, the Swedish multinational group, is preparing a multi-million dollar global investment programme to help consolidate its position as the world's leading domestic appliance maker.

Increased capital spending will be directed at factories at Spennymoor in north east England, Revin in France, Porcia and Susegana in Italy and Mariestad and Torsvik in Sweden, according to Mr Leif Johansson, president of the major appliances division. A washing machine plant in Spain would also benefit.

The group has already earmarked $100m to restructure White Consolidated Industries of the US, bought in 1986.

Initiatives in this programme include the construction of a refrigerator factory in Anderson, South Carolina, and there will be some investment in US washing machine and refrigerator manufacture, Mr Johansson said.

Electrolux plans to spend $7.92m on the British cooker and refrigerator plant at Spennymoor which it took over with last year's purchase of Thorn EMI's appliances business.

Mr Anders Scharp, president and chief executive, said a further £5m ($9m) would be spent on the British vacuum cleaner business, and "a huge amount" on cooker manufacture.

Full plans for the group's British interests will be released next month.

The group is concentrating on capital investment after several years' heavy spending on acquisitions.

Mr Scharp, believes the wave of large-scale takeovers is over.

Blue Circle claims victory in takeover battle for Birmid

BY MICHAEL SMITH IN LONDON

BIRMID QUALCAST, the home products and foundries group, was last night close to conceding defeat after voting ended in one of the closest takeover battles in UK corporate history.

Mr Alan Emson, finance director, said, however, that the company was taking a "long hard look" at cement company Blue Circle's claim that it owned or controlled 50.01 per cent of shares in Birmid.

"It is an absolutely miniscule victory margin," said Mr Emson.

"If just 4,500 of the accepting shares had gone our way we would have won – and there are more than 72m shares in issue. We want to make sure there have been no silly mistakes."

The closeness of the result in the £275m ($495m) bid is likely to act as a restraint on companies considering launching contested cash takeovers.

Since the October crash all such takeovers in the UK have been won by the predator but the Birmid outcome confirms the belief that cash considerations are not as powerful to institutions as they were in the immediate aftermath of the markets collapse.

"Institutions are more liquid than they were at the end of last year," said Lord Verulam, who headed the Barings merchant bank team advising Blue Circle.

Meanwhile, the Blue Circle camp said it had a last-minute scare before its offer closed on Saturday because of the non-appearance of support previously indicated by fund managers at Barclays de Zoete Wedd.

Mr Dick Withers Green, responsible for BZW funds' UK equities, said earlier last week that he and his colleagues were backing the 380p-a-share bid because they saw it as "rich enough"

Mr David Poole, Blue Circle managing director, said yesterday his company had neither bought BZW's 1.5 per cent stake in Birmid, nor had it received acceptances on the shares' behalf.

Air Canada wins pledge of C$300m federal aid

BY ROBERT GIBBENS IN MONTREAL

MR JOHN CROSBIE, the Canadian Transport Minister, has made a commitment to provide C$300m (US$238m) equity support for Air Canada, the federally owned national airline, so it can finance a C$2bn re-equipment programme.

This first phase of Air Canada's re-equipment to the end of the century covers replacement of 34 mid-size aircraft over the next five years.

The government missed an opportunity to privatise Air Canada when markets peaked in 1987.

However, the airline's profitability was still uncertain, political opposition to privatisation strong and the industrial relations outlook difficult.

Since then, these problems have been largely overcome, but the airline faces growing competition from deregulation in the domestic market.

Although management still backs privatisation, it has asked the government for the new equity infusion.

Competing Canadian airlines argue that the C$300m financing will be used by Air Canada indirectly to support predatory pricing in the domestic market.

● Sabena, Belgium's government owned national airline, has joined nine other carriers in a Europe-wide airline computer booking system called Galileo.

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Further uncertainty over interest rates

A WEEK in which gilt-edged securities spent most of the time moving sideways only to end with a flurry of activity which left yields for long-dated securities barely changed does not have much to recommend it.

That was, in summary, the dynamics of the market last week. It was one characterised by extraordinary uncertainty.

The week started with fears of another base rate rise. Then the market was further unsettled by the revision to December's retail sales figures showing demand more buoyant than it wanted. And the week eoded with evidence that inflatioo was continuing its downward trend.

With a host of statistics due this week the case for doing nothing clearly outweighed the case for buying in the market. Yields at the long end closed around 9.65 per cent compared with a level of about 9.6 per cent a week earlier.

The Bank of England entered this somewhat disquieting environment on Thursday with its *ex cathedra* pronouncements on the conduct of UK monetary policy in the period between the October crash and the raising of base rates by ½ point to 9 per cent on February 1.

What is interesting to the market is what indication the Quarterly Bulletin gives of the Bank's continuing concerns and likely policy responses.

The Bank'e prime concern still has to be the interaction of the exchange rate and trade accounts with the domestic economy and the way official worries over inflation manifest themselves. It is clear that movements in short-term interest rates will be geared to holding the exchange rate at close to its present levels.

The exchange rate is the main determinant of official policy and the authorities' only surefire weapon to demonstrate they will not accede to inflation-producing pay settlements with a weaker pound. They also use it to to show the markets their concern that the apparent looseness of monetary policy – as evidenced by the monetary aggregates – should not be taken as such.

With the last rise in base rates the Bank was dealing in the realm of perceptions. Coming at an unexpected time, it was meant to make people stop and think.

A half-point rise in base rates was not expected to have a big impact on bank lending, or on consumers who have demonstrated over the past year that they are insensitive to interest rates. It was a signal of the Bank's concerns and determination, not an attempt to affect the price level throughout the economy in any mechanical sense.

The rationale for the move, ascribed by some analysts as "fine tuning," would therefore appear broadly correct. The implication to draw from this is that further fine tuning may occur in months to come.

If anything, it is clear from the Bulletin that the Bank is still concerned about overheating. The historical data on the economy after the October crash still provide mixed signals, but on balance the Bank's judgment tilts more in favour of overheating than a slowdown.

Domestic demand ie too strong for its liking and it is concerned about the long-run effects on the balance of payments (and hence sterling and interest rates) of a situation where demand ontstrips the capacity of the domestic economy to meet it.

It believes the economy will slow down this year. The fall in the savings ratio to 5 per cent in the third quarter of last year is viewed as an anomaly and the Bank is looking for an upturn in savings.

It is not, therefore, a question of direction but one of degree. The corollary for policy is whether or not the economy elowe of its own accord or through some official stimulus.

Tbe Budget, therefore, becomes the main indicator for moves on short-term interest rates. The Bank'e delphic observation that for the preservation of the internal and external balance the anti-inflationary burden continues to be shared by both fiscal and monetary policy, is another signal that its advice to the Chancellor in sheping the Budget is that it should be tight.

It favours a Budget setting where the public sector borrowing requirement is eimilar to the one achieved this financial year. This would seem to imply tax cuts not a lot greater than those required to redress the taxpayer for fiscal drag.

On balance, it would seem there is a greater likelibood that the next move in interest rates is up rather than down.

Simon Holberton

US MONEY AND CREDIT

Expectations of recession fade

WHATEVER happened to the Great Recession of 1988?

It was just a moment ago that almost every market economist was predicting a big slowdown in the US before the election.

As late as last week, the evidence still looked cast iron. The leading indicators were down three months in a row, employment growth appeared to be tailing off, house sales were weak and retail sales poor. Mountains of unsold goods were building up in warehouses all over the country. The US economy was poised to fall spectacularly to bits, most probably on April 1. Deflation was the order of the day.

As the Federal Open Market Committee met to set monetary policy at the beginning of the week, Wall Street was betting it would cut the discount rate, which has been lodged at 6 per cent since September. At one point on Wednesday, long-term bonds were yielding just 8.29 points and the Wall Street houses, which bought into the Treasury auction two weeks ago at 8.51 per cent, were taking a very handsome turn on their positions.

The market, which has already handed investors a big capital gain this year, seemed poised to rally further into a big consumer-led economic slowdown. But on Thursday, the rally slowed and, on Friday, the market went into retreat. The Treasury long bond, the 8⅞ per cents of 2017, ended last week yielding 8.43 per cent.

Nobody is talking discount-rate cuts any more, or even a more accommodative Fed stance in its open market operations. Fed funds start this week at more or less the same level as last, at 6$^{11}/_{16}$. The recession, at least for the moment, is off. It may remain off until the election.

Friday's market break was all the more remarkable because it coincided with figures showing a marked improvement in the US trade deficit in December. The deficit was $12.2bn, an improvement on November's $13.2bn, which was itself an improvement on the horrible $17.63bn in October.

Six months ago, this sort of trading performance would have sent the dollar through the roof, along with stock and bond prices. The monthly number for the trade deficit was the focus of US financial markets. On Friday, the bond market looked at the $12.2bn figure, noted it, and then went back to its new worry, which is not the dollar exchange rate but inflation.

Mr David Jones, money-market economist at Aubrey Lanston, said: "During the week, there was a rapid shift in perception." Thursday and Friday brought economic figures that progressively chipped away at the recessionists' support.

The big shock came on Thursday, with the figures for retail sales in January. For months, the market has believed that the American conenmer, unnerved by the stock-market crash in October, would stop buying things and help drive the economy into recession.

After the big buildup in inventory in the fourth quarter, January retail sales seemed to be headed down, by at least 0.5 per cent.

As it happened, retail sales increased tbat percentage in January, while the December figure, which had shown an increase of 0.7 per cent, was revised to 1.2 per cent. Purchases of building materials and furniture were etrong, which seems to bode well for house-building. And while the bond market was digesting this troublesome news, its favourite new statistic – initial claims for unemployment benefit – came out and showed a decline.

Friday brought the Producer Price Index for January, and the result was not encouraging. The index rose 0.4 per cent after falling 0.4 per cent in December. Once the volatile elements in the index, food and energy, are removed, the increase was 0.5 per cent last month after 0.2 per cent in December.

In this bearish frame of mind, the market picked over the trade figures looking for something to worry about. There was little wrong on the import side: imports were to all intents flat at $37bn, no doubt because a great deal of the unsold retailers' inventory is imported electronic goods. But exports rose (by 4.2 per cent) for the fourth month in succession. At some point, the market fears, the export sector must start bumping against employment constraints which could have inflationary consequences.

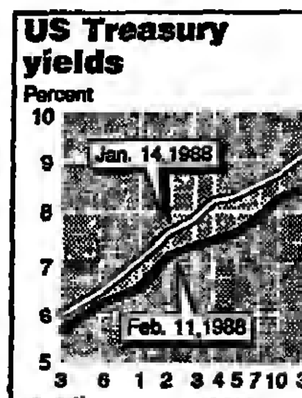
* * *

There are three main economic statistics due for release this week. With them are consensus estimates recorded by Smith Barney on Friday:

- Industrial production for Jannary, due at 9.15am on Tuesday. Output is expected to increase by about the same amount as December's 0.2 per cent.
- Housing starts in January, due at 8.30am on Wednesday. House-building is expected to pick up from the low level of activity registered in December. The consensus estimate is about 1.44m units as against 1.37m in December.
- Capacity ntilisation in manufacturing in January, due at 11.00am on Wednesday. Estimates are for little change from the 82.2 per cent level of December.

James Buchan

US Treasury yields



Source: Technical Data

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	6.27	6.60	7.05	7.78	5.98
Three-month Treasury bills	5.75	5.62	5.87	7.17	5.03
Six-month Treasury bills	6.02	5.92	6.45	7.65	5.39
Three-month prime CDs	6.60	6.57	6.95	8.28	6.11
30-day Commercial Paper	6.45	6.48	6.77	7.62	6.05
90-day Commercial Paper	6.50	6.50	6.87	8.06	5.95

US BOND PRICES AND YIELDS (%)

	Last Price	Change on week	Yield	1 week ago	4 wk. ago
Seven-year Treasury	103	-¼	8.05	7.93	8.75
20-year Treasury	107¾	-1¾	8.37	8.37	9.20
30-year Treasury	104¾	-1¼	8.44	8.38	9.10
New 10-year A Financial	N/A	N/A	9.25	9.35	10
New AA Long utility	N/A	N/A	9.35	9.25	10.25
New AA Long industrial	N/A	N/A	9.11	9.11	10.05

Source: Salomon Bros (estimates).

NRI TOKYO BOND INDEX

December 1985 = 100	10/2/88	Average yield †	Last week	12 wks ago	26 wks ago
Overall	142.40	4.38	142.50	138.40	135.42
Government Bonds	143.94	4.08	143.21	139.32	136.39
Municipal Bonds	144.26	4.71	144.29	139.12	134.93
Govt.-guaranteed Bonds	145.67	4.72	145.66	140.07	136.66
Bank Debentures	136.72	4.16	136.68	133.91	131.62
Corporate Bonds	141.67	4.52	141.52	136.72	135.17
Yen-denom. Foreign Bonds	141.85	6.47	141.27	138.70	138.27
Government 10-year †	4.86	—	4.75	5.22	5.70

† Estimated par yield

Source: Nomura Research Institute

Japanese SE faces capital gains tax

THE JAPANESE stock market, which has weathered last October's market crash remarkably well, may soon be faced with another challenge – the introduction of a general capital gains tax.

Political pressure is building rapidly for such a tax, and the powerful securities industry, which has fought long and hard against it, is showing signs of giving in to the inevitable.

Mr Setsuya Tabuchi, head of the Japan Securities Dealers Association, acknowledged at a press conference in a village in northern Japan at the weekend that the lack of a general capital gains tax contributed to a feeling of unfairness among taxpayers.

Mr Tabuchi is chairman of Nomura Securities, Japan's largest securities group. However, he is also a member of the Government's tax commission which is now touring the country listening to people's views on tax reform.

Other securities industry officials have also observed recently that a capital gains tax seems inevitable and they expect it will prevent the stock market from continuing its current recovery.

Until recently, it was widely believed that the ruling Liberal Democratic Party (LDP), which raises a lot of its money through contacts with the securities industry, would continue to sympathise with the industry's opposition to the application of a capital gains tax to securities transactions.

Indeed, many senior party leaders continue vigorously to oppose the idea. Last month, Mr Michio Watanabe, chairman of the LDP's policy research council, said: "Such a tax could lead to a stock market crash." Mr Kiichi Miyazawa, the Finance Minister, has expressed his fear that it would reduce the competitiveness of the Japanese stock exchanges compared with others in the world.

However, the politicians' position has been undermined to some extent by the disclosure two weeks ago that a senior LDP Diet member and former vice-minister of finance had evaded paying taxes on Y200m ($1.54m) of profits from share dealing.

Although there is no capital gains tax on share dealing profits in Japan, taxes are payable if a person does enough deals so that the operation can be considered a principal occupation. In the politician's case, he concealed the true volume of his transactions by putting some of them in his wife's and fictitious names. Many critics have also pointed out that with the so-called Maruyu system of tax relief on small savings due to be removed at the end of next month, profits on share deals will remain the only type of income not taxed.

Meanwhile, the Government has a practical problem in trying to push through its general tax reform, aimed at reducing income taxes and introducing a value added tax. The opposition parties oppose the introduction of VAT, but have indicated that they would give way if the Government agreed to impose capital gains taxes on all trade actions.

Ian Rodger

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg on day	Chg on week	Yield
ABN BANK 8½ 91	150	101¼	[illegible]	[illegible]	0	8.07
AETNA LIFE & CAS 7¾ 16	200	96⅜	[illegible]	[illegible]	+⅛	8.04
AMFC O/S.FIN. 11⅛ 94	100	100¼	[illegible]	[illegible]	+1	11.14
A.I.D.C. 11 89	75	102½	[illegible]	[illegible]	0	8.27
ALBERTA 7⅞ 91	750	97⅜	[illegible]	[illegible]	+⅛	8.10
ALCOA AUSTRALIA 11 92	80	101½	[illegible]	[illegible]	+⅛	10.54
AUSTRALIA 11¼ 90	200	106¼	[illegible]	[illegible]	+⅛	8.39
AUSTRALIA 11¼ 00	100	111	[illegible]	[illegible]	+⅛	9.66
AUSTRIA 0 97	100	52⅞	[illegible]	[illegible]	+⅞	23.99
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions. FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. Cpn=current coupon. CONVERTIBLE BONDS: US Dollars unless indicated. Premium=percentage premium of the current effective price of buying shares via the bond over the most recent share price. WARRANTS: Equity warrant premium=price premium over current share price. Bond warrant ex=percentage yield at current warrant price. Closing prices on FEBRUARY 12

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INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Euromarket first for Katokichi

BY CLARE PEARSON

KATOKICHI, A frozen foods maker, this week becomes the first Japanese company to offer its equity directly in the Euromarkets, with an issue raising the equivalent of between $60m and $65m.

The move marks a significant departure – Japanese companies have previously issued shares in the US or UK in depository receipt form or, the more usual route, through equity-related bonds in the Eurobond market.

It will provide a test case to determine whether the Euromarket distribution method is capable of achieving firm placement of Japanese shares with foreigners.

Although issues of bonds bearing warrants to buy shares in Japanese companies have boomed in the Eurobond market over the past few years, the underlying shares have almost invariably been sold back into Japan.

Last month, foreign investors became net buyers of Japanese shares for the first time in two years, buying $1.73bn more shares than they sold.

Katokichi is offering 3m shares, which will represent 11 per cent of its equity. Yamaichi International (Europe) is lead managing the issue, with Morgan Stanley, Kleinwort Benson and Kokusai Securities as co-lead managers.

The company recorded a Y1.9bn ($14.7m) net profit on Y74.34bn turnover in the year to last November. Its shares closed in Tokyo on Saturday at a one-year high of Y2,670, producing a historic price/earnings ratio of 36. The new shares will be priced next Friday at a 3½ per cent discount to that day's close.

Katokichi has also issued a SFr70m five-year convertible bond in the Swiss franc foreign bond market through Union Bank of Switzerland.

This was its first bond issue in Europe.

The main attraction to Japanese companies of issuing equity-related bonds in Europe has been the low borrowing cost in yen terms that they provide.

Currently, the proceeds of an equity warrant bond can be swapped into yen to give a cost of borrowing of less than 2 per cent.

Pirelli 'in talks with Firestone'

By John Wyles in Rome

PIRELLI, THE Italian tyre group, has reportedly started discussions with the Firestone Tire and Rubber Company over acquiring all the US company's tyre manufacturing assets.

The reports, carried yesterday by two Italian newspapers, La Repubblica and Corriere della Sera, have been neither confirmed nor denied by Pirelli. Both newspapers say the negotiations still have a long way to go, with La Repubblica stating that a price of $1.25bn is being attached to Firestone's tyre manufacturing.

News of the talks would not come as a great surprise to the Italian vehicle industry, in view of Pirelli's demonstrated interest over the past few years in acquiring US manufacturing assets.

The Italian company reportedly showed some interest two years ago in acquiring General Tire, of the US, but the company was eventually sold to Continental Gummi.

Last autumn, Pirelli came close to acquiring 80 per cent of Armstrong Tire, also of the US, but withdrew because of difficulties in integrating the two companies' operations.

Firestone is the third-largest US tyre manufacturer, after Goodyear and Uniroyal-Goodrich.

Analysts say the pressures toward international restructuring of the tyre industry are inexorable, given the enduring problems of overcapacity.

Moreover, manufacturing capacity in the US would enable Pirelli to bid for the original equipment market among auto manufacturers.

KaiserTech disposals cut debt

BY JAMES BUCHAN IN NEW YORK

KAISERTECH, the loss-making California industrial group controlled by Mr Alan Clore of the UK, said yesterday that it had reached agreement to sell off the remainder of its chemical assets as part of a programme to concentrate on its basic aluminium business.

The disposals, which are being made at "approximately a breakeven," will generate about $360m toward the reduction of the group's debt to a level that the aluminium business can sustain, KaiserTech said.

The group has been seeking a friendly buyer for the 27 per cent of its stock held by Mr Clore, who was one of the victims of the October stock market crash. Mr Clore, who borrowed against the collateral of his KaiserTech stock, fell into default with his banks when the stock halved in value in October.

KaiserTech said yesterday it was selling its industrial chemicals, based mainly in Louisiana, to a management group; its specialty chemicals to the Molson brewing group; and its Utah salt business to Reilly Tar & Chemical, a private Indianapolis company.

But the bulk of the proceeds come from the sale, announced in December, of KaiserTech's Harshaw/Filtrol specialty chemical business to Engelhard of New Jersey.

Hospital Corporation back in black

BY OUR NEW YORK STAFF

HOSPITAL CORPORATION of America, the large Nashville-based hospital chain which has been hit by falling admissions, yesterday reported a return to fourth-quarter profit with earnings of $32.9m or 40 cents a share in the December quarter, as against a loss of $42.1m in the last three months of 1986.

Revenues fell from $1.19bn to $923.1m in the quarter, but the decline was largely due to the sale of 104 less profitable hospitals in September, as part of a radical adjustment by Hospital Corporation to the fall in occupancy.

Earnings in the 1986 fourth quarter were wiped out by a charge of $77m to increase reserves against professional liability and reflect a reversal in investment tax credits.

Hospital Corporation's results for the full year 1987, also released yesterday, are distorted by a large tax liability on the $2.1bn sale of the 104 hospitals.

The chain, which is the largest quoted US health-care company, said it had accounted for $140m in taxes on the sale in the third quarter, but had deferred the $300m capital gain on the sale at the request of the staff of the Securities & Exchange Commission.

The result was a net loss for the year of $58.4m, against net income of $174.6m, on a decline in revenues from $4.93bn to $4.67bn.

Bond forced to alter rights issues

BY KENNETH GOODING, MINING INDUSTRY CORRESPONDENT

MARKET CONDITIONS have forced Mr Alan Bond, the Australian entrepreneur, to change substantially proposed rights issues by North Kalgurli Mines, his main gold mining company, and Gold Mines of Kalgoorlie (GMK).

The original terms were announced in December as part of arrangements to give Mr Bond control of the "Golden Mile" in Western Australia and put the largest gold mining operation in the world outside South Africa into single ownership.

As part of the revised terms, both companies have agreed with the underwriters that they will not raise any further equity capital within 12 months from the issues closing in April.

North Kalgurli will now raise about A$80m (US$57.1m) via a two-for-five renounceable rights issue at 40 cents a share. No options are offered.

This will enable North Kalgurli to take up its 51.55 per cent entitlement in a revised rights issue by GMK.

GMK originally intended to raise A$280m by a two-for-one rights issue at A$2.50 a share. This has been changed to a two-for-one renounceable rights issue at A$1.50 a share, to raise A$168m.

Nedlloyd meeting rejects share plan

By Laura Raun in Amsterdam

SHAREHOLDERS OF Nedlloyd, the Dutch shipping and transport group, have apparently rejected a highly controversial issue of cumulative preferred shares proposed by management as a cheap way of borrowing money.

But yesterday Nedlloyd said it was considering a legal challenge to the vote because of alleged irregularities in about 20 per cent of the votes, mostly of Norwegian shareholders.

Nedlloyd questions whether small share packets were acquired by Norwegian investors in an effort to circumvent the company's limit of 120 votes per shareholder, regardless of the size of an investment.

Because of the vote limit, the number of shareholders attending the meeting or represented by proxy was decisive, not the amount of share capital held.

A group of dissident shareholders, led by Mr Torstein Hagen, a Norwegian shipping executive, had adamantly opposed the Fl 175m ($92.5m) share issue on the grounds that it was a disguised anti-takeover defence.

The preferred shares, which would have amounted to 51 per cent of the total share capital, would have been placed with four financial institutions.

The dissidents, mostly foreign investors, claim to represent about 51 per cent of the existing share capital and had sought to cast the vote as a kind of referendum on Nedlloyd's management policies.

About 56 per cent of the votes cast in the shareholders' meeting, which lasted until early Saturday morning, were against the preferred shares.

●The takeover battle surrounding Audet, a small Dutch newspaper chain, has taken a further twist with a mysterious buyer inviting Audet holders to tender their shares at a price they are willing to accept.

Audet's management said it continued to recommend an earlier offer by VNU, the Netherlands' largest publishing company. VNU's offer was agreed by both managements.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Mitsui P'chemical Ind.Φ♦	150	1993	5	4¾	100	Nomura Int.	4.750
Dowa Fire&Marine Ins.Φ♦	70	1993	5	4¾	100	Yamaichi Int.(Eur)	4.750
Nishi-Nippon Bank§♦	70	2003	15	2⅞	100	Nomura Int.	2.875
Toyo W'harf & W'houseΦ♦	50	1993	5	4⅞	100	Nikko Secs (Europe)	4.875
Daiichi SeiyakuΦ♦	150	1993	5	4¾	100	Daiwa Europe	4.750
Tokai Elec. Constr.Φ♦	70	1993	5	4⅞	100	Nomura Int.	4.875
LTCB Ltd.	150	1993	5	8⅝	101½	LTCB Int.	8.247
Mitsui Bank§	200	2003	15	(2⅞)	100	Mitsui Finance Int.	*
Trio-KenwoodΦ	100	1993	5	(5)	100	Nomura Int.	*
Takashimaya Co.Φ	100	1993	5	(5)	100	Nomura Int.	*
Sumitomo Marine&FireΦ	100	1993	5	(5)	100	Daiwa Europe	*
Shin-Etsu ChemicalΦ	100	1993	5	(5)	100	Nikko Secs (Europe)	*
General Elec.Cap.Corp.♦	250	1991	3	7¾	101¼	LTCB Int.	7.271
Rohm Co.Φ	70	1993	5	(5)	100	Nomura Int.	*
Fuji Fire & Marine Ins.Φ	110	1993	5	(5)	100	Nomura Int.	*
Swedish Export Credit♦	200	1992	4	8⅛	101¼	Daiwa Europe	7.750
Portugal♦	300	1991	3	8¼	101⅛	UBS (Secs)	7.815
Mercedes-Benz Cr.Corp.♦	100	1995	7	8½	100¾	Deutsche Bk Cap.Mkts	8.354
News Publishing§(f)♦	150	1998	10	5⅛	100	CSFB	5.125
Venezuela♦	100	1993	5	11⅛	100	J.P. Morgan Secs.	11.125
EDF♦	200	1998	10	9	101⅝	Shearson Lehman	8.750
Pepsico♦	100	1993	5	8	101¼	SBCI	7.689
OKB♦	200	1993	5	8⅛	101½	J.P. Morgan Secs.	7.752
Nordic Inv. Bank♦	300	1993	5	8¼	101⅜	Nomura Int.	7.906
CANADIAN DOLLARS							
Nederlandse Gasunie♦	85	1991	3	9½	101¼	Banque Paribas	9.006
Deutsche Bank Finance♦	100	1993	5	9⅜	101¾	Deutsche Bk Cap.Mkts	8.926
Prov. British Columbia♦	150	1993	5	9¼	100⅞	SBCI	9.025
City of Vienna♦	91	1993	5	9⅜	101¼	Societe Generale	9.053
AUSTRALIAN DOLLARS							
IBM Australia Credit♦	75	1992	4	12¾	101¾	CSFB	12.172
Rabobank Nederland♦	50	1991	3	12¾	101½	SBCI	12.124
World Bank♦	75	1993	5	12¾	102	Hambros Bank	12.193
D-MARKS							
Nichiei Construction§♦	70	1994	6	1¾	100	Yamaichi Int(O'land)	1.750
DG Bank Int.♦	300	1995	7	5¾	100¼	DG Bank	5.706
Bayerische Landesbk Int.♦	100	1993	5	5	100¼	Bayerische Landesbk	4.942
Privatbanken♦	150	1993	5	5¼	100½	Deutsche Bank	5.134
Nobis Bank♦	50	1993	5	5	100	Industriekreditbank	5.000
BFCE♦	300	1998	10	6	100¾	Dresdner Bank	5.899
WestLB Int.	200	1993	5	5	100¼	WestLB	4.942
SWISS FRANCS							
Nikko Co.**§♦	40	1993	-	1¼	100	UBS	1.250
Denki Kagaku Kogyo**Φ♦	150	1993	-	2⅜	100	Bqe Paribas (Suisse)	2.375
Daiei Finance**§♦	100	1993	-	1	100	Citicorp Inv. Bank	1.003
Nishi-Nippon Bank**§♦	50	1993	-	1⅛	100	Credit Suisse	1.125
Daiichi Seiyaku**§♦	100	1993	-	1	100	Credit Suisse	1.000
Asian Dev. Bank♦	100	1995	-	4¼	100¼	SBC	4.208
Asian Dev. Bank♦	50	2008	-	5	100	SBC	5.000
American Medical Int.♦	100	1996	-	5	101	Goldman Sachs Fin.	4.846
Itoman Co.**§	100	1993	-	(1¼)	100	Banca del Gottardo	*
Mitsui Bank§	150	1993	-	(1)	100	SBC	*
Mitsui Bank**§	150	1993	-	(1)	100	SBC	*
Komatsu Forklift Co.**Φ	50	1993	-	(2⅜)	100	SBC	*
Aegon♦	100	1999	-	4¾	100	SBC	4.750
Rohm Co.**§	150	1993	-	(1¼)	100	UBS	*
News Publishing§(f)♦	150	1998	-	2¾	100	Credit Suisse	2.750
Prov. of Manitoba**♦	72	1992	-	3⅞	100	UBS	3.875
Bond Finance (g)♦	150	1993	-	5¾	100	Warburg Soditic	5.750
Katokichi Co.**§	70	1993	-	(1¼)	100	UBS	*
DANISH KRONER							
Copenhagen Telephone(b)♦	400	2003	15	10	100¼	Privatbanken	9.934
FRENCH FRANCS							
EIB♦	1.5bn	2003	15	9	97.14	Credit Agricole	9.362
PESETAS							
Eurofima♦	10bn	1995	7	12	99⅝	Morgan/His.Americano	12.082
LUXEMBOURG FRANCS							
Sofabanque**♦	300	1993	5	7⅜	100½	Bqe Paribas (Lux)	7.252
Kymmene Corp.**♦	300	1993	5	7½	100	BGL	7.500
Bergen Bank**♦	300	1993	5	7⅜	100	Bqe Paribas (Lux)	7.375
Copenhagen T'phone**♦	300	1993	5	7⅜	100½	Kredietbank Int.	7.252
YEN							
British Petroleum (a)♦	20bn	1993	5	7	101⅞	Daiwa Europe	6.548
Banca Comm.Italiana(a)♦	20bn	1993	5	7	101¾	Daiwa Europe	6.578
Mortgage Bk Denmark(c)♦	7bn	1993	5	3	100⅝	Nikko Secs (Europe)	2.864
Mortgage Bk Denmark(d)♦	14bn	1993	5	5	100½	Nikko Secs (Europe)	4.885
B. Naz. del Lavoro (e)♦	10bn	1992	4	7	101¾	Daiwa Europe	6.489

*Not yet priced. **Private placement. ♦Final terms. ‡Floating rate note. ΦWith equity warrants. §Convertible. (a) Bull/Bear bonds in two tranches of Y10bn each. Redemption price linked to Japanese Govt. bond future settlement price in Tokyo 3-months before redemption. (b) Coupon 10% first 5 years, then reset at 5 year intervals. (c) Bull bond. (d) Bear bond. Both (c) and (d) redemption tied to Japanese Topix Index of first section shares. (e) Bear bond - redemption price linked to Japanese Govt. bond future contract 3-months before redemption. (f) Convertible preference shares into Pearson shares or cash on exchange. (g) SFrs150m maximum. Note: Yields are calculated on AIBD basis.

Notice of Redemption

to the holders of

International Standard Electric Corporation

12% Sinking Fund Bonds Due 1996

NOTICE IS HEREBY GIVEN, that pursuant to the provisions of the Indenture dated 15th March, 1984 (the "Indenture"), between International Standard Electric Corporation and Bankers Trust Company, Trustee, that $8,732,000 principal amount has been selected by the Trustee for Redemption on 15th March, 1988 at the principal amount thereof in accordance with the Sinking Fund provided for in Section 3.06 of the Indenture.

The following are the serial numbers of the Bonds which will be redeemed in whole:

6	1724	3252	5044	6812	8362	9832	11388	13023	14799	16398	17991	19658	21119
16	1736	3268	5045	6818	8363	9833	11394	13050	14800	16399	17998	19659	21148
38	1738	3272	5051	6827	8360	9858	11395	13054	14810	16406	18002	19664	21158
46	1747	3283	5057	6841	8361	9872	11397	13056	14823	16408	18017	19672	21168
60	1754	3311	5060	6853	8363	9885	11417	13057	14825	16420	18027	19680	21173
65	1759	3322	5068	6885	8364	9886	11419	13064	14829	16424	18031	19681	21179
71	1767	3342	5070	6887	8380	9897	11425	13078	14846	16430	18032	19694	21185
73	1778	3343	5073	6890	8388	9898	11432	13098	14851	16439	18038	19702	21196
74	1786	3345	5074	6910	8398	9900	11446	13099	14862	16458	18042	19704	21204
81	1790	3355	5081	6919	8401	9903	11449	13107	14864	16465	18051	19710	21218
85	1799	3365	5138	6924	8407	9904	11458	13108	14869	16475	18053	19711	21225
97	1801	3368	5141	6931	8412	9905	11467	13114	14875	16476	18064	19715	21243
119	1803	3385	5142	6946	8413	9918	11484	13115	14880	16503	18085	19727	21253
125	1813	3387	5155	6947	8434	9917	11485	13119	14888	16507	18093	19730	21260
129	1816	3417	5164	6949	8440	9954	11503	13125	14905	16512	18098	19735	21268
137	1821	3439	5167	6950	8446	9977	11516	13154	14922	16522	18101	19740	21270
151	1860	3440	5203	6953	8448	9979	11519	13161	14926	16525	18108	19750	21274
178	1865	3441	5205	6979	8453	9980	11522	13169	14953	16528	18114	19755	21288
181	1881	3455	5212	6988	8492	9986	11527	13170	14965	16538	18116	19758	21307
204	1894	3460	5214	6995	8504	9993	11529	13182	14982	16542	18120	19763	21308
212	1898	3468	5218	7008	8515	9997	11535	13181	14983	16543	18123	19769	21318
228	1903	3470	5255	7018	8525	10007	11547	13229	14984	16550	18129	19771	21346
250	1904	3476	5260	7019	8527	10008	11568	13238	14993	16555	18130	19781	21349
257	1917	3484	5264	7029	8541	10010	11573	13239	15037	16557	18139	19782	21351
267	1919	3489	5275	7034	8555	10015	11578	13241	15039	16558	18140	19788	21355
278	1934	3490	5289	7035	8564	10018	11591	13269	15044	16565	18150	19789	21359
282	1951	3511	5290	7044	8581	10021	11597	13270	15050	16573	18159	19797	21380
287	1962	3515	5291	7055	8586	10025	11602	13276	15065	16577	18162	19800	21390
288	1982	3521	5294	7058	8594	10028	11604	13296	15084	16587	18170	19820	21411
304	1987	3540	5298	7065	8599	10036	11605	13298	15085	16588	18176	19822	21417
308	2000	3571	5316	7067	8605	10041	11615	13302	15094	16611	18185	19829	21432
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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70611	71588	72801	73806
70614	71608	72812	73808
70624	71620	72817	73810
70627	71621	72821	73817
70628	71634	72837	73835
70637	71640	72847	73936
70638	71649	72842	73957
70639	71655	72850	73960
70640	71658	72873	73983
70647	71665	72889	73984
70651	71685	72892	73986
70653	71696	72896	73967
70654	71707	72896	73981
70660	71708	72921	73984
70663	71719	72945	73986
70667	71741	72973	73995
70669	71746	72974	74013
70675	71747	72975	74016
70686	71753	72981	74019
70704	71756	72996	74020
70715	71757	73000	74022
70722	71766	73002	74025
70723	71769	73006	74026
70725	71778	73017	74045
70731	71784	73026	74049
70733	71788	73029	74055
70736	71796	73033	74059
70738	71803	73034	74067
70743	71821	73037	74079
70745	71827	73044	74080
70746	71828	73063	74081
70753	71830	73069	74083
70759	71844	73074	74085
70765	71847	73080	74088
70772	71849	73086	74091
70774	71859	73088	74094
70777	71875	73102	74096
70799	71880	73114	74100
70828	71887	73120	74109
70837	71896	73127	74113
70854	71897	73129	74128
70862	71903	73131	74129
70868	71915	73135	74133
70873	71919	73151	74139
70877	71927	73154	74156
70881	71935	73156	74158
70882	71949	73169	74173
70895	71962	73170	74177
70899	71972	73185	74187
70905	71986	73188	74196
70910	71996	73189	74198
70915	72010	73195	74219
70920	72024	73204	74221
70923	72037	73205	74222
70932	72040	73222	74230
70937	72047	73225	74234
70940	72050	73239	74235
70942	72053	73255	74238
70946	72055	73256	74244
70952	72057	73259	74250
70962	72071	73260	74253
70971	72072	73265	74258
70972	72075	73269	74259
70983	72078	73271	74273
70994	72087	73278	74280
71000	72092	73281	74282
71001	72098	73286	74302
71003	72116	73289	74304
71005	72117	73294	74315
71006	72120	73296	74315
71009	72126	73314	74340
71011	72128	73315	74346
71015	72132	73322	74356
71019	72138	73326	74373
71022	72142	73327	74378
71042	72149	73333	74381
71043	72161	73338	74384
71054	72167	73348	74393
71059	72176	73355	74397
71061	72177	73363	74400
71064	72180	73365	74403
71067	72182	73367	74419
71075	72183	73380	74431
71076	72196	73401	74433
71081	72198	73407	74437
71084	72216	73408	74447
71085	72232	73423	74449
71093	72235	73428	74451
71120	72251	73429	74470
71133	72258	73433	74479
71145	72264	73441	74497
71148	72269	73449	74524
71149	72271	73468	74540
71170	72276	73473	74565
71174	72279	73476	74579
71179	72290	73478	74584
71183	72294	73483	74593
71186	72302	73491	74596
71190	72318	73492	74601
71195	72327	73489	74604
71210	72329	73513	74619
71213	72335	73517	74621
71228	72336	73526	74634
71229	72345	73537	74668
71242	72348	73533	74672
71245	72365	73541	74679
71250	72381	73543	74686
71254	72383	73551	74694
71256	72387	73553	74702
71259	72401	73557	74706
71262	72417	73572	74719
71263	72418	73580	74733
71270	72429	73584	74734
71271	72447	73587	74743
71276	72457	73589	74747
71280	72471	73590	74755
71284	72503	73592	74757
71289	72523	73596	74760
71296	72539	73603	74766
71306	72544	73623	74777
71309	72547	73674	74780
71328	72567	73677	74785
71329	72579	73696	74789
71330	72594	73698	74792
71340	72598	73711	74800
71344	72602	73712	74805
71345	72605	73732	74807
71354	72613	73737	74814
71359	72618	73741	74817
71371	72620	73743	74818
71372	72626	73747	74826
71380	72627	73748	74828
71382	72629	73764	74835
71386	72633	73779	74842
71401	72644	73780	74845
71417	72653	73731	74847
71423	72656	73783	74848
71429	72663	73786	74851
71437	72667	73792	74853
71440	72668	73813	74856
71444	72672	73828	74858
71452	72675	73832	74860
71455	72680	73842	74869
71481	72714	73845	74912
71493	72719	73847	74937
71500	72721	73849	74945
71506	72725	73852	74954
71512	72737	73857	74956
71514	72746	73861	74958
71521	72750	73871	74968
71524	72751	73875	74979
71531	72761	73876	74980
71533	72769	73878	74982
71542	72770	73883	74986
71546	72775	73884	74995
71547	72787	73891	
71559	72800	73896	

Accordingly, on 15th March, 1988 the Bonds so designated for redemption will become due. Payment will be made upon presentation and surrender thereof of the above Bonds at one hundred per cent (100%) of the principal amount thereof in United States Dollars, at the option of the holder, subject to any applicable laws or regulations in the country where each of the following offices are located, at the City Offices of Bankers Trust Company in London, at the main office of Bankers Trust Company in Paris, at the office of Bankers Trust, GmbH in Frankfurt, at the office of Banque Indosuez Belgique Brussels (formerly Banque du Benelux S.A. Brussels), at the office of Banque Generale du Luxembourg S.A. in Luxembourg or at the office of Swiss Bank Corporation Basle.

The redeemed Bonds should be presented with all Coupons maturing after 15th March, 1988. Coupons maturing on 15th March, 1988 and prior thereto should be detached and surrendered for payment in the usual manner. From and after 15th March, 1988 interest on redeemed Bonds will cease to accrue.

International Standard Electric Corporation

By Bankers Trust Company, Trustee.

5th February, 1988

UK COMPANY NEWS

Beazer takes 1.4% stake in Wimpey

BY FIONA THOMPSON

CH Beazer, the building group, yesterday sought to scotch any suggestion that it was contemplating launching a bid for **George Wimpey**, Britain's biggest housebuilder.

The company declined formally to comment on Sunday newspaper reports that it had built up a significant stake in Wimpey, but let it be known that any shareholding was a trade investment.

It is understood that Beazer has acquired a holding of 3.95m shares, representing 1.4 per cent of the Wimpey equity. The shares have been bought by stockbrokers Hoare Govett through Company Investments, a wholly owned subsidiary of Beazer.

While the possibility of Beazer mounting a bid cannot be ruled out, sources close to the company say it looks exceedingly unlikely.

The major shareholder in Wimpey is Grove Charity Management, which has a 35 per cent holding.

Beazer posted record pre-tax profits of £72.3m for the year to June 30, 1987, sharply up on the 1986 total of £31.1m. Turnover for the year doubled from £507.1m to £1.03bn.

In 1985, Wimpey reported pre-tax profits of £66.5m, a 42 per cent increase on the previous year. For the six months to June 1987, the company made £35.4m pre-tax profits.

Pearson – no concrete proposals from Murdoch

BY FIONA THOMPSON

LORD BLAKENHAM, chairman of **Pearson**, the UK conglomerate which owns the Financial Times, said last night that Pearson would only consider entering into a joint venture with Mr Rupert Murdoch if it made commercial sense.

There was no question of doing a deal with Mr Murdoch "just because he has bought 20 per cent of Pearson," said Lord Blakenham, speaking on Channel 4's The Business Programme.

Mr Murdoch, who has a 20.5 per cent stake in Pearson, last month said he would like to form an association between News Corporation, his international media concern, and Pearson to produce a special US edition of the Financial Times to compete with the Wall Street Journal.

But, said Lord Blakenham, despite the talk of co-operation, Mr Murdoch had so far failed to put forward any concrete proposals to the Pearson board.

"To date he hasn't really come forward with any ideas other than making remarks to newspapers. We've had one discussion in which he made it clear he would like to come up with proposals in due course. I've suggested he might put forward some proposals. There haven't been any.

"The circumstances in which we would consider a serious proposal would only be if they made commercial sense on their own merits."

Lord Blakenham rejected Mr Murdoch's claim that sales of the FT in the US should be much higher than their current level of 20,000 a day.

"We are not just going for volume," he said.

Nikki Tait looks at the final stages of Barker & Dobson's battle for Dee Corp.

Institutions will decide victors

AFTER his 58th institutional presentation last Friday, even John Fletcher – the normally chirpy chairman of sweets and supermarkets group Barker & Dobson – sounded a touch battle-weary.

Yet, as B&D's £2bn bid for the substantially-larger Dee Corporation, chugs into its final week, both sides know that fund managers' votes matter to a rare degree. Private investors account for under 10 per cent of Dee's shares. The only disclosable holding – the 15 per cent stake held by Associated British Foods – is effectively neutralised in terms of acceptance. And the relative sizes of bidder and target augur against a share purchasing scramble.

In short, institutions will decide – in particular, the 40-odd who hold almost half Dee's shares.

Whether they relish the choice is another matter. At one level, the bid throws up some fascinating arguments – the future of "middle ground" grocery outlets against superstores and, on the takeover front, the whole question of leveraged bids, especially in this dicey, post-October world.

On a more prosaic investment plane, the options are stark. Dee's recent record is undeniably dismal, reflected in the fact that its shares have underperformed the food retailing sector by some 40 per cent since early-1986. But B&D's terms work out at 218p for each Dee share, of which only 140.5p comes in cash.

That prices Dee at a mere 14.6 times forecast earnings to April 1988; is backed by up to £1.6bn of bank loans; necessarily involves a large and relatively speedy disposal programme; and entails the issue of 486m new B&D shares, over five times the number currently in existence.

On the retailing front, Dee's problems are well-known. Today's company results from a rapid paper-financed acquisition programme in the mid-eighties, which culminated in the purchase of Fine Fare (from ABF) and US sporting goods retailer, Hermans, in 1986.

This spree has given Dee 13 per cent of the UK grocery market, 829 outlets and the largest selling area – 8.9m sq ft – of any UK food retailer. It has also given the company indigestion.

Chairman Alec Monk's game-plan is to get all stores under a Gateway fascia by April 1989. He envisages trading up the average store size and replacing the various "own-labels" by "exclusive brands" thus utilising Dee's market clout but avoiding Gateway's less-than-shining image. He wants to increase centralised distribution and enjoy economies of scale.

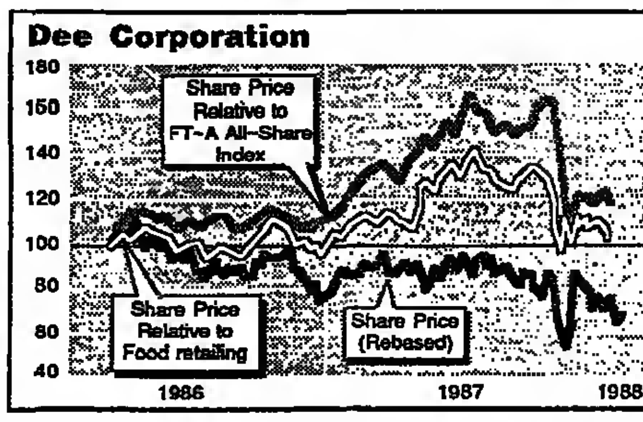
In practice, Dee's interim profits (announced shortly before the bid) fell by 23 per cent to £63.6m.

Since then, Dee claims a marked improvement. It forecasts at least £170m trading profit from Gateway in the 53-week period to April 1988 (against £152.9m in the previous 52 weeks).

Second half trading margins, says Monk, should advance to at least 5.6 per cent (5.02 per cent). And he points to specific progress. Distribution depots, for example, have been reduced from 32 to 22; very small stores (under 8,000 sq ft) now account for less than a quarter of the portfolio and over 100 "exclusive brands" are installed. The Fine Fare conversion programme is on target.

Unfortunately for the group overall, Gateway's hiccups are compounded by problems at Hermans. Here, hefty expansion under Dee's management has coincided with warehousing disruptions. Dee does not spell out Hermans' expected profits, but few analysts anticipate more than £8m at the trading level, compared with some £25.4m last time.

Overall, then, Dee is left forecasting pre-tax profits "of the order of £185m", 4 per cent down on 1986/7 despite the slightly longer accounting period. Come 1988/9, company-watchers talk of £220m-£225m, with earnings – forecast at 15p in the current year – still a shade below 1987's 17.7p level.



B&D's proposals are very different. Essentially, it would break up the Dee group, retaining only the 750 "middle ground" Gateway supermarkets. By concentrating on a more defined task, John Fletcher sees considerable scope for basic retailing efficiencies – ranging from store reorganisation, to a streamlined product range and consistent pricing. Some 100 stores would convert to the more upmarket Budgens format.

The plan, however, does entail the sale of Dee's 79 superstores – along with the non-Gateway interests. This, in turn, poses perhaps the thorniest issue of the bid. As the food retail market moves towards saturation, superstores have been seen as the growth segment.

Fletcher, though not disputing that, claims that the inherent convenience of large supermarkets means that these ahould at least hold their ground.

In the context of Dee specifically, analysts are not universally convinced. They point to the fact that Dee's superstore returns currently underperform the group overall and, as the reorganisation works through, could offer the greatest scope for advance.

Debate about the superstore disposal programme, moreover, is intrinsically linked to the bidder's financing arrangements. B&D is funding the £1.24bn cash element of its bid, plus up to £350m of working capital, by a three-year syndicated bank loan – a degree and scale of leverage which has not been seen on the UK bid scene since the Elders/Allied Lyons contest in 1985.

The first repayment – 35 per cent of the loan – comes after 18 months, and the loan agreement contains specific financial ratios which the enlarged group must meet. Dee maintains it is tight to breaking point; B&D says not.

After much sound and fury on this front, B&D has produced a second presentation spelling out its financial thinking in more detail.

This, in many eyes, accounts for the latest shift in market sentiment – which gives the bidder a slim chance of success and has pushed Dee shares back to 187p compared with a pre-bid price of 176p. "Fletcher's second round has been much better," comments one analyst. "At least, he should feel that the case couldn't have been presented much better."

Unfortunately, B&D does not discuss those figures on an attributable basis. There are too many underlying assumptions, says Fletcher, and they are really offered "by way of illustration only, to give a feel for the fact that the financing is not precarious." What B&D does volunteer is a £760m price-tag (ahead of tax) for the superstores and an assertion that the bulk of the disposals should be through by April 1989. Dee, by contrast, continues to emphasise the possibilities for error and, therefore, the inherent risk.

All of which leaves the matter of price. An exit multiple of 14.5 times is low by any standard. Last May, for example, Yorkshire supermarket chain Hillards went out to Tesco at 33 times earnings in the year which had just ended (or 29 times on the cash alternative). The multiples on forecast earnings were 23 and 20 times respectively.

True, such figures were pre-crash and for a company with a good record and much-wanted niche. But the changed climate also provides added uncertainties: B&D, after all, envisages a large issue of paper in conditions which are far from stable as well as the sale of Hermans at a low ebb in its fortunes.

In theory, then, the bid is still wide open. By the third close – only 24 hours after announcing that it would not alter its original terms – the bidder had received acceptances in respect of just 5.8 per cent of Dee's shares; it owns only 0.5 per cent. But institutions rarely come until the end.

That said, low price and relatively high risk is not a combination which the City has ever welcomed. And this fact alone could yet save the day for Dee – the recent record notwithstanding.

Thomas French lower

Thomas French & Sons, manufacturer of curtain styling products and distributor of computer peripherals and components, reported a drop in pre-tax profits from £1.24m to £800,000 for the year to October 31 1987.

This was largely because of an exceptional debit of £374,000 – a provision against amounts due, relating to earlier years' trading, from trade debtors in Nigeria. These debits are now considered irrecoverable.

Turnover rose to £27.25m (£26.23m); though operating profit was down at £1.16m (£1.24m) with associated companies contributing £11,000 (£1,000). Tax was lower at £392,000 (£865,000) and after an extraordinary credit of £125,000 (£931,000 debit), earnings per share came out at 5.6p (2.98p).

The directors said that the group's strategy now was to concentrate the majority of its resources on the development of the consumer products business. Also a specialist electronics company with greater sales resources was being sought as a partner for Tekdata.

An unchanged final dividend of 1.725p was announced, to maintain the total at 2.875p.

Downiebrae green light

SHAREHOLDERS in **Downiebrae Holdings** have given the green light for **European Fire Protection**, a private company owned by Mr Jacques Gaston Murray, to build up a 29.9 per cent stake in the company.

Shareholders approved the sale of a 14.9 per cent stake by three existing directors to EFP at 50p a share, paving the way for EFP to launch a tender offer today for a further 15 per cent at a price of 60p a share. The tender already has sufficient acceptances to ensure its success.

EFP is the majority shareholder in Nu-Swift Industries, the fire protection equipment company which has a London listing.

Alexander to sell Fios

Walter Alexander, the Scottish industrial holding company, is seeking buyers for Fios, the windows and doors business of its home products division. The business is believed to be worth around £1m.

Walter Alexander said that the windows and doors business does not form part of the proposed future development of the Home Products division, which will be centered on Slumberdown quilts and textile-related activities. The sale is being handled by Robert Fleming, the merchant bank.

Cookson buys Ballard for £160,000

By Andrew Hill

Cookson Group, metals, chemicals and ceramic plastics group, has bought **Ballard**, industrial oven manufacturer, from Steetley Engineering for £160,000.

Cookson bought the company through its subsidiary Marr Engineering and made the purchase because of Ballard's expertise in the paint stoving and tin printing industries – markets untouched by Marr's oven division.

Marr plans to invest in computer-aided design for Ballard to bring the company into line with its own design capability.

Steetley Engineering is a subsidiary of Steetley, the construction materials and chemicals group.

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition.

Associated-Henriques (Section: Trusts, Finance, Land); **Citygrove 7.75 per cent cum. conv. red. pref.** (property); **Hafnia Investment** (Trusts, Finance, Land); **Isle of Man Steam Packet** (Shipping); **Joel (H.J.) Gold Mining 'S' ord.** (*Mines – ofs*).

Anglo & Overseas rise

IN 1987, **Anglo & Overseas Trust** lifted gross revenue from £8.59m to £10.27m and the available balance from £4.8m to £5.05m.

The latter represented earnings per share of 8.84p (8.4p), and the dividend is lifted to 7.5p (7p), the final being 5p.

At the year-end the net asset value came to 479.9p, a decrease of 5.6 per cent over the 508.6p at December 31 1986.

Franked income rose to £5.56m (£4.83m) and interest receivable showed a near £1.2m advance to £1.82m. However, interest payable rose by £1m.

Croda in chemicals deal

Croda International, the speciality chemicals, food and cosmetics group, has bought the chemicals division of John Kerr from Ginge-Kerr for £981,000 cash.

The chemicals division manufactures and sells foam and powder products for use in fire-fighting and in buildings products.

John Kerr's protein-based foam prodncts are complementary to the proteins produced by Colloids, a Croda subsidiary. Ginge-Kerr will retain its fire-fighting system engineering activities.

The net assets of Kerr's chemicals division at December 31 1987 were £581,000.

COMPANY NEWS IN BRIEF

ARTHUR LEE: Annual meeting told that the company was confident and anticipated reporting good progress at the half way stage. Provided the dispute in the motor industry was not too extended, the chairman did not expect it to have serious effect on profitability.

UNIGATE has sold Sonth West Meat to a UK subsidiary of the Kerry Group for a total consideration of about £4m.

PILKINGTON: The issue of 414,054 ordinary shares has been approved in respect of the scrip dividend arrangements for the first interim dividend for the year ending March 31 1988.

MAINMET HOLDINGS has completed its acquisition of Accrington-based Minerva Electronics, sub-contractor to the electronics industry, for an initial £287,000 – satisfied by £20,000 cash and the issue of 150,000 ordinary shares. Further profit-related consideration of up to a maximum of 50,000 shares is payable at a minimum price of 175p.

Barclays in £11.5m deal

Barclays Bank has completed the purchase of a 75 per cent interest in the **Arbnthnot Commercial Services** group at a cost of approximately £11.5m The remaining 25 per cent of the equity is owned by the Yorkshire Bank.

The group – it will be renamed Barclays Commercial Services – specialises in providing a comprehensive range of factoring, invoice discounting and trade finance facilities. In 1987, it achieved record pre-tax profit in excess of £1.8m

BOARD MEETINGS

TODAY

Interims- Dalgety, Ewart, Honeysuckle Group

Finals- PLM, Pacific Assets Trust, Shaftsbury

FUTURE DATES

Interims-

Consolidated Gold Fields Mar 2

Fletcher Challenge Mar 9

Grand Metropolitan May 11

Jacqmar Feb 16

Finals-

Associated British Ports Apr 7

Cowie (T) Mar 2

Novo Industri Mar 15

NOTICE OF REDEMPTION TO HOLDERS OF

INDUSTRIAL BANK OF FINLAND LTD
LAND AND INDUSTRIAL MORTGAGE BANK LTD
FINNISH REAL ESTATE BANK LTD

$7\frac{1}{2}$ per cent. Guaranteed Finnish Municipalities Notes Due 1989

Seventh Mandatory Redemption Due 1st April, 1988 Of Kuwaiti Dinars 750,000

NOTICE IS HEREBY GIVEN that, pursuant to Condition 5(A) of the above-mentioned Notes, Kuwait Investment Company (S.A.K.), as Fiscal Agent, has drawn by lot, for redemption on 1st April, 1988, at 100% of the principal amount thereof through operation of the Sinking Fund, Kuwaiti Dinars 750,000 principal amount of said $7\frac{1}{2}$ per cent. Notes due 1st April, 1989, bearing the following distinctive numbers:

00438-00468	01263-01293	03723-03770
00600-00630	01401-01431	03814-03825
00680-00710	01455-01490	03870-03897
00771-00801	02064-02094	04101-04120
00871-00901	02101-02131	04745-04772
01084-01114	02178-02200	04821-04846
01132-01162	02601-02632	04862-04910
01182-01212	02959-03000	04929-04962

The Notes specified above will become due and payable in Kuwaiti Dinars at the offices of Kuwait Investment Company (S.A.K.), Mubarak Al-Kabir Street, Kuwait City, State of Kuwait, or, at the option of the bearer, but subject to applicable laws and regulations, at Citibank, N.A., Citibank House, 336 Strand, London WC2R 1HB, and Kredietbank S.A. Luxembourgeoise, 43 Boulevard Royal, Luxembourg, by cheque drawn on a Kuwaiti Dinar account, with, or by a transfer to a Kuwaiti Dinar account maintained by the payee with, a bank in Kuwait. From, and after, 1st April, 1988, interest on the above mentioned Notes will cease to accrue.

Notes should be surrendered for payment together with all unmatured coupons appertaining thereto, failing which the face value of the missing unmatured coupons will be deducted from the principal amount.

The aggregate principal amount of Notes remaining outstanding after 1st April, 1988, will be Kuwaiti Dinars 750,000.

KUWAIT INVESTMENT COMPANY (S.A.K.) on behalf of
INDUSTRIAL BANK OF FINLAND LTD
LAND AND INDUSTRIAL MORTGAGE BANK LTD
FINNISH REAL ESTATE BANK LTD

Dated: 15th February, 1988

U.S.$20,000,000

Central-European International Bank Ltd.
(Incorporated as a joint stock company in Hungary)

Floating Rate Notes 1990
Extendable at the Noteholder's option to August 1992 and thereafter to August 1994

In accordance with the provisions of the Agent Bank Agreement between Central-European International Bank Ltd. and Arab Banking Corporation – Daus & Co. GmbH dated July 17, 1984, notice is hereby given that the Rate of Interest has been fixed at 7% p.a. and that the interest payable on the relevant interest Payment Date, August 16, 1988 against Coupon No. 8 in respect of U.S.$ 10,000 nominal amount of Notes will be U.S.$ 353.89 and in respect of U.S.$ 25,000 nominal amount of Notes will be U.S.$ 884.72.

London, February 15, 1988

By: Arab Banking Corporation – Daus & Co. GmbH, Agent Bank

BANK OF GREECE

US $250,000,000
Floating Rate Notes due 1997

Holders of Floating Rate Notes of the above issue are hereby notified that for the Interest Period from 16th February, 1988 to 16th August, 1988 the following information is relevant:

1. Rate of Interest: 7% per annum
2. Interest Amount payable on Interest Payment Date: US$ 353.89 per US$ 10,000.00 nominal or US$ 8,847.22 per US$ 250,000.00 nominal
3. Interest Payment Date: 16th August, 1988

Agent Bank
Bank of America International Limited

US$250,000,000
Floating Rate Subordinated Capital Notes due August 1996

CITICORP

Notice is hereby given that the Interest payable on the relevant Interest Payment Date, February 23, 1988, for the period November 14, 1987 to February 14, 1988 against Coupon No. 14 in respect of U.S.$50,000 nominal of the Notes will be U.S.$1,887.68.

February 15, 1988, London
By: Citibank, N.A. (CSSI Dept.), Agent Bank · CITIBANK

FINANCIAL TIMES STOCK INDICES

	Feb. 12	Feb. 11	Feb. 10	Feb. 9	Feb. 8	Feb. 5	1987/88 High	1987/88 Low	Since Compilation High	Since Compilation Low
Government Secs.	88.45	88.51	88.63	88.43	88.17	89.08	93.32	83.73	127.4	49.18
Fixed Interest	95.25	94.97	94.92	94.95	94.77	95.59	99.12	90.23	105.4	50.53
Ordinary	1385.0	1381.0	1368.4	1355.9	1349.0	1387.1	1926.2	1232.0	1926.2	49.4
Gold Mines	255.9	252.7	259.0	254.5	249.0	251.0	497.5	241.7	734.7	43.5
FT-Act All Share	889.66	887.33	881.19	875.91	870.19	892.44	1238.57	784.81	1238.57	61.92
FT-SE 100	1734.0	1729.8	1694.5	1737.8	1766.9	1737.8	2443.4	1565.2	2443.4	986.9

UK COMPANY NEWS

Heather Farmbrough on the rising fortunes of Porter Chadburn

A cure for management paralysis

RAY DINKIN used to have the lifestyle and perks of an international executive, shuttling between the US and the UK, sitting next to film stars on Concorde. But then, aged 38, he decided to give it all up last July to run a little known Lancastrian engineering company which had lost its way.

The company was Porter Chadburn, formed by the merger in 1972 of Porter-Lancastrian, manufacturer of brewing equipment and polythene packaging, with Chadburn, manufacturer of plastics, cranes and hoists and marine engineers. As the quoted subsidiary of another engineering company – GM Firth – it lacked its own identity and direction, which was reflected in a flat profits performance.

Now, following a management buy-in, profits are on a sharply rising trend and the company is being refocused with the main emphasis on marketing and distribution, which may take it into the paper industry.

Porter Chadburn's old spread of businesses bore little outward resemblance to Mr Dinkin's previous companies: Spillers, Beecham and Bowater Scott, where he was the marketing director. It was there that Mr Dinkin's fate became bound up with paper and packaging – specifically, in his case, Andrex, the toilet tissue. He even appeared on the cover of Marketing Week magazine holding the brand's well-known labrador puppy with the words underneath: "Would you buy a used puppy from this man?"

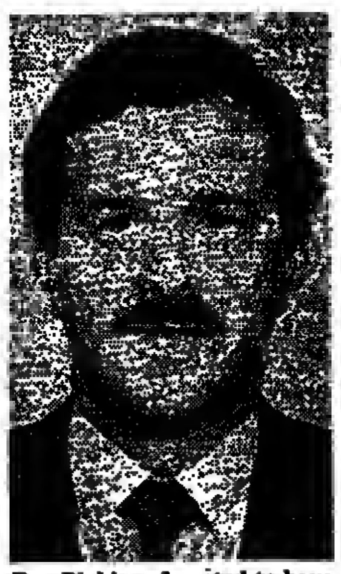
He then moved on to run Scott's European paper operations, which he helped transform, both in terms of profitability and the division's importance to the corporation, turning round the Belgian and Spanish businesses from loss into profitability.

By summer 1986, he was in Philadelphia as the youngest executive on the main board of Scott, where he was in charge of strategy and corporate planning, including acquisitions.

He then made the decision to give up a high salary, a fair amount of tax relief and job security as well, to go to run a small company which had only just moved back into the black after four consecutive loss-making years.

Two things made up his mind, he says. "One was the need to live in the US and to compete in the challenge for the eventual post as chief executive of Scott. I had to decide whether I really wanted that sort of life."

The other, he explains, was a doubt in his mind as to whether he wanted to be part of a large corporation or do something more entrepreneurial. "I wanted to have some fun," he says, "and I wanted to build something myself."



Ray Dinkin – "wanted to have some fun"

With about £20m in sales, the company was the right size for Mr Dinkin to develop – the goal is sales of £100m within the next year or so

In the winter and spring of 1987, he often found himself on the same Sunday evening plane back to Philadelphia with Victor Blank of Charterhouse, the merchant bank. Thus he came to hear that GM Firth, a client of Charterhouse, was thinking of diluting its majority shareholding (64 per cent) in Porter Chadburn. With about £20m in sales, the company was the right size for Mr Dinkin to develop - the goal is sales of £100m within the next year or so.

Mr Dinkin and his partner, Mr David Cassidy, who had worked for Unilever, Rank Xerox and Ever Ready, had been looking at a number of small company shells, but were anxious to avoid a contested takeover battle.

By July 1987, Mr Dinkin had become chairman, and Mr Cassidy finance director, after a management buy-in, backed by Charterhouse. GM Firth has since reduced its holding to 29.4 per cent, while Mr Dinkin and Mr Cassidy hold just less than 4 per cent of the enlarged capital. It seems to be a well-balanced duo. "He's an eternal optimist – which is unusual for an accountant, while I'm an eternal pessimist," says Mr Dinkin.

The dilution of the GM Firth holding marked Porter Chadburn's transition to an independent company. Its former majority shareholding, protecting Porter Chadburn from any hostile bid, had robbed it of its own identity and led to management paralysis. The company, says Mr Dinkin, was "a collection of mature businesses, which, with the exception of Continental Pressing Technic (a fabric finishing distributor) had only a small share of their own markets and had failed to exploit their positions in these".

His target is to turn these mature businesses into a more cohesive whole, with a strong emphasis on good management and an "open culture, where managers are fully empowered and participate fully in the direction of the business".

The key to the future mix of the group's businesses unsurprisingly lies in Mr Dinkin's paper and marketing roots. The emphasis is likely to be on marketing in a variety of sectors, with businesses balanced between manufacturing and distribution. Paper and packaging businesses are likely to play a part, although Mr Dinkin warns that a number are overvalued and highly cyclical.

"We may be looking at quite small businesses in fragmented industries which can grow through market growth or by building up a critical mass - ie by putting these businesses together," he says. Disposals are also likely to play a part in developing the new group, both for strategic reasons, and to strengthen the balance sheet.

In the past six months, following a strategic review of the businesses, the company has been reorganised into five main divisions : general engineering; food and drink; plastics; oil services; and industrial distribution. The food and drink dispensing businesses are to be sold for an initial consideration of £775,000.

Analysts believe there may be a long-term question mark over the oil services and the food and drink divisions - as the disposal of the dispensing business suggests.

This would leave Porter Chadburn with heavy engineering interests, including the manufacture of parts for Type 22 and Type 23 frigates. It includes the plastics and packaging division, which makes plastic bags, fire resistant film and bulk packaging materials.

The interim figures, reported in December, revealed losses arising from a shortage and high prices of polymer, which have now been stemmed. "We would want more value-added businesses in the plastics division," comments Mr Dinkin.

The remaining division is CPT. "I don't see us making any investments in any of the other divisions," predicts Mr Dinkin. "I would like to increase CPT's sales and marketing presence. We are leaders in the market, so we should be able to develop our customer services."

A pointer to the future is Tasco, a distributor of sports and leisure goods, which was acquired for an initial £6.6m in October. It could well provide the base for a specialist consumer goods distribution within the group. With profits growing at about 40 per cent a year, it had the added attraction of a well-established, strong management. Mr Dinkin is keen to buy well-managed companies to add to the group's overall managerial resources.

Already, the changes at Porter Chadburn seem to be bearing fruit. As expected, the interim figures for the six months to September 30 showed a drop in pre-tax profits from £347,000 to £158,000. But with a good second half underway, Miss Kate Tidbury, an analyst at Panmure Gordon, expects pre-tax profits for the year to March to reach £1.6m, compared with £1.067m in 1987.

However, the figures will not reveal the enormity of the change in management style since the Dinkin/Cassidy buy-in. "There has been more sitting down and talking - just really having a good dialogue at all levels of the company, which was missing before," says Mr Dinkin.

Miss Tidbury argues that the extent of the change in management style is already noticeable to outsiders. "There was quite a morale problem, with people not knowing why they were producing things. It is now more a question of pointing the management in a specific direction than anything else. The response will be evident in the results over the next two years."

THIS ANNOUNCEMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, please consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

TENDER OFFER

by

Dawnay, Day & Co., Limited

on behalf of

EUROPEAN FIRE PROTECTION HOLDING B.V.

to purchase up to 2,624,908 Ordinary Shares of 10p each in

DOWNIEBRAE HOLDINGS P.L.C.

at 50p per Ordinary Share

Further copies of this Tender Offer and the annexed Form of Tender (upon the terms of which alone tenders will be accepted) may be obtained on request from Dawnay, Day & Co., Limited at the address set out in the annexed Form of Tender.

Dawnay, Day & Co., Limited
(Registered in England No. 228785)

Registered Office:
4 Audley Square
South Audley Street
London W1Y 5DR
15th February, 1988

To the holders of Ordinary Shares of 10p each in Downiebrae Holdings P.L.C.

Dear Sir or Madam,

Tender Offer on behalf of European Fire Protection Holding B.V. ("EFP") for Ordinary Shares of 10p each ("Downiebrae ordinary shares") in Downiebrae Holdings P.L.C. ("Downiebrae").

On behalf of EFP we hereby offer to acquire by tender on the terms and subject to the conditions set out below, up to 2,624,908 Downiebrae ordinary shares (the "Tender Offer") representing approximately 15.0 per cent. of the issued ordinary share capital of Downiebrae.

EFP at present holds 2,623,155 Downiebrae ordinary shares, representing approximately 14.99 per cent. of the issued ordinary share capital of Downiebrae. EFP has received valid undertakings to accept the Tender Offer in respect of 7,726,568 Downiebrae ordinary shares and accordingly all tenders submitted will be scaled down pro rata. Following successful completion of the Tender Offer, EFP will hold 5,248,063 Downiebrae ordinary shares, representing approximately 29.99 per cent. of the issued ordinary share capital of Downiebrae.

The middle market quotation for Downiebrae ordinary shares, derived from The Stock Exchange Daily Official List, at the close of business on 11th February, 1989 (being the last dealing day but one prior to the publication of this Tender Offer and the last practicable date prior to the printing of this advertisement) was 55p per share.

Terms of the Tender Offer

1. The consideration under the Tender Offer shall be a fixed price of 50p in cash in respect of each Downiebrae ordinary share tendered and accepted.
2. All tenders will be irrevocable.
3. The Tender Offer will close at 10.00 a.m. on Monday, 22nd February, 1989 (the "closing date") and no tenders received after that time will be accepted.
4. Downiebrae ordinary shares will be acquired by EFP free from all liens, charges and encumbrances and with all rights now or hereafter attaching thereto including the right to receive all dividends and other distributions declared, made or paid after the date hereof and the right to attend and vote at any General Meeting of Downiebrae after 22nd February, 1988.
5. As the number of Downiebrae ordinary shares tendered will exceed 2,624,908 tenders will be scaled down pro rata.
6. All tenders must be made on the form of tender which forms part of this advertisement (the "Form") duly completed in accordance with the instructions therein, which (together with the notes thereon) constitutes part of the terms of the Tender Offer.
7. The Tender Offer shall be governed by and construed in accordance with English law and delivery of a Form shall constitute submission to the jurisdiction of the English Courts.
8. No person receiving a copy of this advertisement and/or any Form in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him nor should he in any event use such Form unless in the relevant territory such an invitation and offer could lawfully be made to him without compliance with any unfulfilled filing, registration or other legal requirements.

Procedure for tendering

Forms, duly completed, should be returned, together with the relevant share certificate(s) and/or other document(s) of title for Downiebrae ordinary shares or, at the discretion of Dawnay, Day & Co., Limited and EFP, an indemnity in lieu thereof to Barclays Bank PLC at the address set out on the Form, as soon as possible but in any event so as to arrive not later than 10.00 a.m. on Monday, 22nd February, 1988. As only some, but not all, of the shares represented by a certificate delivered with a Form can be sold pursuant to the Tender Offer due to the scaling down referred to above, the relevant shareholders will be entitled to receive from Downiebrae a certificate for the unsold shares.

Notwithstanding that no share certificate(s) is/are delivered in respect of it, a duly completed Form (i) executed under seal by Sepon Limited and endorsed on behalf of The Stock Exchange to the effect that the Downiebrae ordinary shares to which it refers are the whole or part of a holding registered in the name of Sepon Limited and/or are Downiebrae ordinary shares to which Sepon Limited is unconditionally entitled immediately to become the registered holder; or (ii) executed by any other person(s) and endorsed on behalf of The Stock Exchange to the effect that such person(s) is/are unconditionally entitled immediately to become the registered holder(s) of the Downiebrae ordinary shares to which it refers and that one or more Talisman transfer(s) in favour of such person(s) in respect thereof is/are in the course of registration, shall be treated by Dawnay, Day & Co., Limited and EFP as valid in all respects on the date of its actual receipt provided that, on presentation to the Registrars of Downiebrae for registration, the instrument of transfer executed pursuant thereto is unconditionally accepted for registration.

Settlement

1. The result of the Tender Offer and the basis of scaling down tenders will be announced by 9.00 a.m. on Tuesday, 23rd February, 1988, the business day next following the closing date.
2. Cheques will be despatched not later than 12 business days following the closing date to holders of Downiebrae ordinary shares whose tenders, valid and complete in all respects, are received before the Tender Offer closes in respect of the number of Downiebrae ordinary shares tendered after taking account of scaling down.
3. All documents and remittances sent by or to holders of Downiebrae ordinary shares will be sent at their own risk and no acknowledgement of receipt of documents will be sent.

EFP's intentions

It is the intention of EFP to diversify and develop the business of Downiebrae both in the U.K. and internationally. There are however no specific proposals for such development being pursued at the present time.

Taxation

The disposal of Downiebrae ordinary shares pursuant to the Tender Offer will constitute a disposal or part disposal for the purposes of United Kingdom taxation on capital gains and may give rise to a liability to taxation. Any shareholder who is in doubt as to his tax position should consult his own professional adviser.

Yours faithfully

for DAWNAY, DAY & CO., LIMITED

B. M. PINCUS

Director

Unless the context otherwise requires, expressions defined in the Tender Offer document dated 15th February, 1988 from Dawnay, Day & Co., Limited bear the same meanings in this Form.

Certificate lodged (for completion by The Stock Exchange or the Registrar).

FORM OF TENDER

for the sale of

Downiebrae ordinary shares

ACTION TO BE TAKEN

If you wish to tender all or any of your Downiebrae ordinary shares you should complete and sign where indicated below. You should insert in Box 1 the number of Downiebrae ordinary shares which you wish to tender and then sign the Form below and send it, together with your share certificate(s) and/or other document(s) of title for not less than the total number of Downiebrae ordinary shares tendered, to Barclays Bank PLC, Registrars Department, P.O. Box 96, 9 Gracechurch Street, London EC3V 0BB, as soon as possible but in any event so as to arrive not later than 10.00 a.m. on Monday, 22nd February, 1988.

NOTE

If you have lost any of your certificates you should follow the procedure in Note D below. Your attention is also drawn to the additional Notes below.

To: Dawnay, Day & Co., Limited ("Dawnay Day") and European Fire Protection Holding B.V. ("EFP").

(1) I/We, the undersigned, have received the Tender Offer document dated 15th February, 1988 (the "Tender Offer document") from Dawnay Day offering on behalf of EFP to acquire by way of tender up to 2,624,908 Downiebrae ordinary shares. I/We hereby irrevocably tender to Dawnay Day on the terms and subject to the conditions set out in the Tender Offer document:

INSERT HERE NUMBER OF DOWNIEBRAE ORDINARY SHARES WHICH YOU WISH TO TENDER *AND THEN SIGN BELOW → Box 1

Downiebrae ordinary shares held by me/us (or such smaller number as may result from scaling down in accordance with the provisions of the Tender Offer document) at 50p per share, for settlement in cash.

*If Box 1 is left blank and this Form is signed, you will be deemed to have tendered the holding represented by the certificate(s) and/or other documents of title enclosed with your Form.

(2) I/We enclose the share certificate(s) and/or other document(s) of title in respect of not less than the number of Downiebrae ordinary shares tendered hereby.

(3) My/our execution of this Form shall constitute: (i) my/our irrevocable acceptance of the offer on behalf of EFP, contained in and on the terms of the Tender Offer document, in respect of the number of Downiebrae ordinary shares set out or deemed to be set out above (or such smaller number as may result from scaling down in accordance with the provisions of the Tender Offer document); (ii) an irrevocable appointment (by way of security for my/our contractual obligations hereunder) of each of EFP and any Director of Dawnay Day as my/our attorney to complete and execute on my/our behalf and in my/our name(s) one or more instruments of transfer in favour of EFP of the Downiebrae ordinary shares in respect of which I/we have accepted or shall be deemed to have accepted the Tender Offer (or such smaller number as may result from scaling down in accordance with the provisions of the Tender Offer document) and on my/our behalf to execute any further documents and to do any other acts as may be necessary or expedient to give effect to any such transfer; (iii) my/our irrevocable authority and request to EFP or its agents to send by post at my/our risk to the person or agent whose name and address is set out below or, if none is set out, to the first named holder at his/her registered address, a cheque for the cash consideration due to me/us and any documents of title to which I am/we are entitled.

(4) My/our execution of this Form shall constitute an irrevocable appointment (by way of security for my/our contractual obligations hereunder) of each of EFP and any Director of Dawnay Day as my/our attorney: (i) to execute any form of proxy in respect of such number of Downiebrae ordinary shares which are purchased by EFP; and (ii) if a corporation, to appoint any person nominated by EFP to attend at and to vote for me/us and on my/our behalf in such manner as he thinks fit or to abstain from voting at any General Meeting of Downiebrae (and at any adjournment of any such meeting) pending the registration of the transfer in respect of such Downiebrae ordinary shares.

Please insert below in BLOCK CAPITALS the name and address of the person or agent to whom you wish any cheque and/or document of title to be sent.

Name .... Address ....

For Office Use Only

1. Tender No.
2. Qty Tendered
3. Shares Accepted
4. Balance
5. Cash £
6. Cheque No.

NOTES REGARDING THE COMPLETION AND LODGING OF THIS FORM IMPORTANT

The following notes should be read carefully. In order to be valid the Form must be correctly completed in all respects and received by Barclays Bank PLC, Registrars Department, P.O. Box 96, 9 Gracechurch Street, London EC3V 0BB by 10.00 a.m. on Monday, 22nd February, 1988 together with the share certificate(s) and/or other document(s) of title and, where appropriate, death certificate, probate, letters of administration, marriage certificate and/or deed poll. TENDERS NOT VALID IN ALL RESPECTS WILL BE DISREGARDED.

In order to be valid this Form must, except as mentioned below, be signed personally by the registered holder or, in the case of a joint holding, by ALL the registered holders. A body corporate must execute this Form under seal, the seal being affixed and witnessed in accordance with its Articles of Association or other regulations.

The following suggestions are made to avoid delay and inconvenience:—

A If a holder is away from home (e.g. abroad or on holiday):—
Send this Form by the quickest means (e.g. air mail) to the holder for execution or, if he/she has executed a power of attorney, have this Form signed by the attorney. In the latter case the power of attorney (or a duly certified copy, as provided in the Powers of Attorney Act 1971) must be lodged with this Form for noting. No other signatures will be accepted.

B If the sole holder has died:—
If probate or letters of administration has/have been registered with Downiebrae, this Form must be signed by the personal representative(s) of the deceased.
If probate or letters of administration has/have been granted but has/have not been registered with Downiebrae, the personal representative(s) should sign this Form and forward it to Barclays Bank PLC at the address given above with the share certificate(s) and with a copy of the probate or letters of administration.

C If one or more of the joint holders has died:—
This Form is valid if signed by all the surviving holders and lodged with Barclays Bank PLC at the address given above accompanied by the death certificate, probate or letters of administration of the deceased holder.

D If one or all of your share certificate(s) has/have been lost or is/are not readily available:—
Complete and lodge this Form with a letter of explanation and any share certificate(s) available with Barclays Bank PLC at the address given above. At the same time you should write to the Registrars of Downiebrae, Clydesdale Bank PLC, Stock Exchange Services Department, P.O. Box 30, St. Vincent Place, Glasgow G1 2HL, for a letter of indemnity which should be completed in accordance with the instructions given. When completed the letter of indemnity must be lodged with Barclays Bank PLC at the address given above by 10.00 a.m. on 22nd February, 1988. Indemnities will only be accepted at the discretion of Dawnay Day and EFP. No payment will be made under the terms of the Tender Offer unless share certificate(s) and/or other document(s) of title, or an acceptable indemnity in lieu thereof, is/are received by the due date.

E If your name or other particulars are shown incorrectly on the certificate e.g.:—
(i) incorrect name
name of certificate .... James Smith
correct name .... James Smythe
complete and lodge this Form with the correct name and accompanied by a letter from your bank, stockbroker or solicitor confirming that the person described on the certificate and the person who has signed this Form are one and the same;
(ii) incorrect address
write the correct address on this Form.
(iii) change of name
lodge your marriage certificate or the deed poll with this Form for noting.

Further copies of this Form are available from:—
Dawnay, Day & Co., Limited, 4 Audley Square, South Audley Street, London W1Y 5DR. Tel: 01-629 1676

Signed, sealed and delivered by the undermentioned shareholder(s):—

PLEASE SIGN HERE

(1) Sole or First Holder
Usual signature .... SEAL
Surname ....
(State whether Mr., Mrs., Miss or Title)
Forename(s) ....
(in full)
Address ....
(in full)
Postcode ....

(2) Second Holder (if any)
Usual signature .... SEAL
Surname ....
(State whether Mr., Mrs., Miss or Title)
Forename(s) ....
(in full)

(3) Third Holder (if any)
Usual signature .... SEAL
Surname ....
(State whether Mr., Mrs., Miss or Title)
Forename(s) ....
(in full)

(4) Fourth Holder (if any)
Usual signature .... SEAL
Surname ....
(State whether Mr., Mrs., Miss or Title)
Forename(s) ....
(in full)

In the case of joint holders ALL must sign. A corporation must execute under seal.

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DIARY DATES

PARLIAMENTARY

TODAY

Commons: Private Members' Motions. Debate on agriculture.

Lords: Local Government Bill, report stage. Norfolk and Suffolk Broads Bill, report stage.

Select committees: Treasury and Civil Service: harmonisation of indirect taxes. Witness: Lord Cockfield (Room 8, 4.30 p.m.)

Public accounts: cost and financial control of British forces in West Germany. Witness: Sir Clive Whitmore, Ministry of Defence (Room 16, 4.45 p.m..)

TOMORROW

Commons: Immigration Bill, remaining stages. Motion on the Prevention of Terrorism (Temporary Provisions) Act 1984 continuance order.

Lords: Local Government Bill, report stage. Prevention of Terrorism (Temporary Provisions) Act continuance order, motion for approval.

Select committees. Transport: decline in the UK registered merchant fleet. Witness: Mr Stanley Clinton Davis, EC Transport Commissioner (Room 17, 4.15 p.m.)

Agriculture: Storm damage of October 16, 1987. Witness: Mr John Selwyn Gummer, Minister of State for Agriculture (Room 21, 4.30 p.m.)

Parliamentary Commissioner for Administration: reports of the Health Service Commissioner. Witnesses: Shropshire Health Authority and Nottingham Health Authority. (Room 18, 4.30 p.m)

Committee on a Private Bill - British Railways (London). (Room 5, 11 a.m.)

WEDNESDAY

Commons: Debate on Government motion on the abolition of the Inner London Education Authority. Supplemental timetable motion on the Education Reform Bill. Motions on rate support grant supplementary report for England.

Lords: Debate on the 13th report of the Nature Conservancy Council. Unstarred question on Government response to the policy document of the Coronary Prevention Group entitled "European Community: barrier or scapegoat - an analysis of the UK Government's position on nutritional labelling."

Select committees. Trade and Industry: Information technology. Witness: International Computers Ltd (Room 15, 10.15 a.m.)

Foreign Affairs: UK emergency relief for famine in the Horn of Africa. Witnesses: Oxfam, Christian Aid, CAFOD, Save the Children (Room 6, 10.30 a.m.)

Welsh Affairs: Public Spending White Paper. Witnesses: Mr Peter Walker, Welsh Secretary, and officials. (Room 18, 10.45 a.m.)

Energy: the structure, regulation and economic consequences of electricity supply in the private sector. Witness: Electricity Council (Room 8, 11 a.m.)

Home Affairs: broadcasting. (Room 16, 4 p.m..)

Employment: urban development corporations. (Room 17, 4.15 p.m.)

Social Services: resourcing the NHS. Witnesses: DHSS officials. (Room 20, 4.15 p.m.)

Public Accounts: agricultural colleges; enveloping of houses by Northern Ireland Housing Executive, Richmond Centre, Londonderry. Witnesses: Dr W. Jack, Department of Agriculture for Northern Ireland, Mr D. Barry, Department of the Environment for Northern Ireland. (Room 16, 4.15 p.m.)

Environment: air pollution. Witness: Forestry Commission. (Room 21, 4.30 p.m.)

Trade and Industry: Post Office. Witness: Mr Kenneth Clarke, Chancellor of the Duchy of Lancaster. (Room 6, 4.30 p.m.)

Joint committee on private bill procedure. Witness: Sir Eldon Griffiths, MP (Room 4, 6 p.m.)

THURSDAY

Commons: Motions relating to social fund regulations. Motion on the rate limitation (prescribed maximum rates order).

Lords: Local Government Bill, report. Licensing Bill, second reading. Unstarred question on whether the Government will propose a new study on the future task of the alliance at the forthcoming Nato summit.

Select committee: Committee on a private bill - British Airways (London). (Room 5, 10.30 a.m.)

FRIDAY

Commons: Private members' motions.

Lords: Motion to take note of the white paper "DTI - the department for enterprise."

FINANCIAL

TODAY

COMPANY MEETINGS–
Flexello Castors & Wheels, Holiday Inn, Ditton Road, Langley, Berks., 3.00
Perpetual, Phyllis Court, Marlow Road, Henley-on-Thames, 11.00

BOARD MEETINGS–
Finals;
PLM
Pacific Assets Trust
Shaftesbury
Interims;
Dalgety
Ewart
Honeysuckle Group

DIVIDEND & INTEREST PAYMENTS–
Alphameric 1p
Anderson, Strathclyde 8% Uns. Ln. 88/91 4pc.
Anglo American Inv. Tst. 6% Prf. 1.87951p
British Telecom 3.75p
Chase Manhattan 54cts.
Colgate-Palmolive 37cts.
GEC Intl. NV 11% Gtd. Nts. 1991 5.5pc
Greater London Council 6¾% 90/92 3.375pc.
Halma 0.628p
M & G Second General Tst. 11.383p
Malartic Hygrade Gold Mines (Canada) 10cts.
Marsh & McLennan 60cts.
Moss Tst. 1p
Pacificorp 63cts.
Plaxtons (GB) 3p
Ross Consumer Elect. 1.2p
Royal Tst. Dollar Income Fd. Ptg. Red. Prf. 2.5cts.
Scott & Newcastle 2.7p
Scottish Inv. Tst. 4.75p
Scottish Metropolitan Prop. 6⅜% Mtg. Deb. 88/93 3.1875pc.
Do. 10¼% Mtg. Deb. 2016 5.125pc.
Sears 7¼% Uns. Ln. 92/97 3.625pc.
TSB Gilt Fund 3p
Tongaat-Hulett 18cts.
Trinity Intl. 5% Prf. 1.75p
Volex Group 4p

TOMORROW

COMPANY MEETINGS–
Archimedes Inv. Tst., 131, Finsbury Pavement, E.C., 12.30
Assoc. Newspapers, Stationers' Hall, Ludgate Hill, E.C., 10.30
Daily Mail & General Trust, Carmelite House, E.C., 12.00
TMD Advertising, Founders' Hall, 1, Cloth Fair, E.C., 11.30

BOARD MEETINGS–
Finals;
Alexander Hldgs.
Crest Nicholson
Newmarket Co.
Trencherwood
Interims;
Elders IXL
Hard Rock Intl.
Jacqmar
Ricardo Consulting Engineers
Rodime

DIVIDEND & INTEREST PAYMENTS–
Archimedes Inv. Tst. 7.5p
Avon Rubber 7p
Bankers Tst. Intl. NV Gtd. Ftg. Rate Sub. Nts. 1995 $199.57
Gates Rubber 5% Prf. 3.5p
Do. 5% 2nd Prf. 3.5p
Hawthorn Leslie 0.25p
Homestake Mining 5cts.
Interfirst Texas Finance NV Gtd. Ftg. Rate Nts. 1989 $201.22
Radiant Metal Finishing 1p
Storehouse 2.5p
Treasury 2½% IL 2013 £1.4279
Warner Comms. 10cts.
Wells Fargo Ftg. Rate Sub. Nts. 1997 $201.22
Do. Ftg. Rate Sub. Cap. Nts. 1998 $191.67

WEDNESDAY FEBRUARY 17

COMPANY MEETINGS–
Acatos & Hutcheson, Tallow Chandlers Hall, 4, Dowgate Hill, E.C., 12.00
Audio Fidelity, Savoy Hotel, Strand, W.C., 12.00
Control Techniques, St. Giles, Newtown, Powys, 12.00
Cranbrook Electronic Hldgs., Institute of Directors, 116, Pall Mall, S.W., 10.00
Hunterprint Group, Ironmongers' Hall, Aldersgate Street, Barbican, E.C., 12.00
Sock Shop Intl., Barber-Surgeons' Hall, Monkwell Square, Wood Street, E.C., 11.00

BOARD MEETINGS–
Finals;
British Kidney Patient Assoc. Inv. Tst.
Copenhagen Handelsbank
Green Property
Independent Newspapers
Inv. Trust Guernsey
Trust of Property Shares
Interims;
Automagic
Manganese Bronze
Regentcrest

DIVIDEND & INTEREST PAYMENTS–
Brown & Tawse 2.4p
Canadian Imp. Bk. of Comm. Ftg. Rate Sub. Cap. Debs. 2085 $376.94
Cityfed Fin. Corp 0.1cts.
Flexello Castors & Wheels 3.1p
Forminster 2.5p
HK & Shang. Bkg. Prim. Cap. Und. Ftg. Rate Nts. $191.67
Midsummer Leisure 2.5p
Sterling Inds. 1p

THURSDAY FEBRUARY 18

COMPANY MEETINGS–
English China Clays, Hyde Park Hotel, Knightsbridge, S.W., 12.30
Perkins (John) Meats, City of London Club, 19, Old Broad Street, E.C., 12.00
Sidlaw Group, Nethergate Centre, Dundee, 12.00
Stakis, Stakis Normandy Hotel, Inchinnan Road, Renfrew, 3.00
VPI Group, Savoy Hotel, Strand, W.C., 12.00

BOARD MEETINGS–
Finals;
Charterhall
Cresta Hldgs.
F. & C. Enterprise Trust
Midland Bank
Throgmorton USM Trust
Interims;
Photo-Me Intl.
Throgmorton Dual Trust

DIVIDEND & INTEREST PAYMENTS–
Control Techniques 2.5p
Credit Foncier de France 10¼% Gtd. Ser. Ln. 2011/2/3/4 5.125pc.
Debenham Tewson & Chinnocks 1.5p
Fletcher King 2.5p
N'wide Bldg. Soc. Ftg. Rate Nts. 1996 £38.8
New Zealand Ftg. Rate Nts. 1997 £113.9
Oil & Natural Gas Comm. Gtd. Ftg. Rate Nts. 1997 $373.75
Perpetual 1.7p
Sock Shop Intl. 0.8p
Standard Chartered Sub. Ftg. Rate Nts. 1996 £114.37
Westpac Bkg. Corp. Sub. Ftg. Rate Nts. 1997 $380.14

FRIDAY FEBRUARY 19

COMPANY MEETINGS–
Horne (Robert) Group, Huntsman House, Mansion Close, Moulton Park, Northampton, 11.00

BOARD MEETINGS–
Finals;
Fleming Enterprise Inv. Tst.
SelecTV
Stainless Metalcraft
Tribune Inv. Tst.
Interims;
Alumasc Group
Courtney,Pope
Highland Electronics

DIVIDEND & INTEREST PAYMENTS–
Anglo Irish Bank 1p
Associated News 5.25p
Beales (J.) 1.65p
Buckley's Brewery 0.8p
C.H. Inds. 0.75p
Carclo Eng. 1.1p
Citicorp Overseas Fin. Corp. NV Gtd. Ftg. Rate Nts. 1991 £113.11
Cranbrook Elect. 0.5p
Craton Lodge & Knight 1.8p
de Morgan 0.65p
Fleming Technology Inv. Tst. 0.2p
Goldberg (A.) & Sons 1.32p
Home Federal Savings & Loan Assoc. 5cts.
Lee (A.) & Sons 2.2p
Northern Foods 4.25p
Pilkington 2.35p
Sidlaw Grp. 3.5p
Woolwich Equitable Bldg. Soc. Ftg. Rate Ln. Nts. 1995 £229.37

SATURDAY FEBRUARY 20

DIVIDEND & INTEREST PAYMENTS-
Caterpillar 18.75cts.
M & G Recovery Fd. 5p
Security Pacific Corp. 45cts.

SUNDAY FEBRUARY 21

DIVIDEND & INTEREST PAYMENTS-
Exchequer 10½% 1997 5.25pc.
Treasury 10% 1992 5pc.

Trade Fairs and Exhibitions: UK

Current
International Automotive Parts and Accessories Trade Show - AUTOPARTAC (01- 855 7777)(until February 16)
Olympia

February 17-18
Northern Building Services and Energy Management Show (01-680 7525)
G-Mex Centre, Manchester

February 20-28
Boat,Caravan & Leisure Show (021- 236 3366)
NEC,Birmingham

February 21-24
International Men's and Boys' Wear Exhibition – IMBEX (01-940 6066)
Olympia

February 25-28
Cable and Satellite Exhibition (01-486 1951)
Wembley Conference Centre

February 29- March 4
International Electrical and Electronic Exhibition – ELECTREX (0483- 222888)
NEC,Birmingham

March 1-6
British National Stamp Exhibition (01- 930 5455)
Horticultural Halls, London

March 3-5
Entrepreneur's Exhibition (01-493 0000)
Business Design Centre, London

March 5-9
The Stationery Industry Exhibition - STATINDEX '88 (01-385 1200)
Olympia

March 6-8
Fast Food Fair (01- 948 9900)
G-Mex Centre, Manchester

March 21-24
Materials Testing Exhibition (07072 75641)
NEC, Birmingham

Overseas Exhibitions

February 20-24
International Trade Fair (Consumer Goods) (01-734 0543)
Frankfurt

February 29- March 5
Mechanical Components Exhibition – MECANELEM (01-226 5566)
Paris

March 1-3
SEMICON/Europa International Electronics Show (01-353 8807)
Zurich

March 8-12
International Business Show (01- 486 1951)
Tokyo

March 12-14
International Fashion Shoe Exhibition - MIDEC (01-225 5565)
Paris

March 13-19
International Spring Fair (01-491 8552)
Leipzig

Business and Management Conferences

February 15
Financial Times Conferences: The London Motor Conference – Manufacturing, Components and the Aftermarket (01- 926 2323)
Hotel Inter-Continental,London

February 17-18
Financial Times Conferences: Cable television and satellite broadcasting (01-925 2323)
Hotel Inter-Continental,London W1

February 18
Drummonds for Conferences: Finance Direct 88 – Direct Marketing Services for Financial Marketeers (05806 5161)
Marriott Hotel, London, W1

February 22
Legal Studies and Services: Disqualification and personal liability (01-236 4080)
Gloucester Hotel, London SW7

February 24
The Economist: Marketing financial services (01- 839 7000)
Marriott Hotel,London, W1

February 25
CBI Conferences: The defence markets you are missing (01-379 7400)
Centre Point, London

February 29
Longman Seminars: Auditing and accounting of pension schemes (01- 242 4111)
Hotel-Intercontinental,London W1

February 29
The Economist/NEDO: Post crash strategies for British business (01-839 7000)
London Marriott Hotel

February 29–March 2
Metal Bulletin Conferences: Third Secondary Aluminium Conference (01- 330 4311)
Tara Hotel,London,W8

March 1
Tolley Publishing Company: Timber Trading 88 conference (01-680 5682)
Royal Garden Hotel, London W8

March 2
The Urban and Economic Development Group: Training people to *manage* urban change (01-928 9515)
London

March 3
General meeting of the Institution of Mining and Metallurgy (01- 580 3802)
Burlington House,London W1

March 3
CBI Conferences: Lifting the barriers to Europe (01- 379 7400)
Centre Point, London WC1

March 12
Wye College: A return to the land? (0233 812401)
Ashford, Kent

March 15
Electronic Publishing Services: Evaluating investment and acquisition opportunities in the information industries (01- 490 1185)
The City Conference Centre, London EC3

March 15
Institute of Directors: Retirement - an outdated concept (01-839 1233)
116 Pall Mall, London SW1

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes in the details published

Rentals

Company Notices

Contracts & Tenders

Legal Notices

Educational

Personal

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. date	1987/88 High	1987/88 Low	Stock	Closing Price	+ or -	Net Div.	Times Cov'd	Gross Yield	P.E. Ratio
§72	F.P.	12/2	78	70	Atlantic Securities 5p	78		-	-	-	-
330	120	-	92	70½	British Petroleum	77		N12.5	1.5	6.0	14.3
§120	F.P.	-	145	131	‡Carrod Phoenix 10p	145		R3.5	2.7	3.4	14.9
§100	F.P.	-	113	100	‡Hatfield Estates 10p	111		R1.5	10.2	1.9	7.3
52	F.P.	-	68	62	In Shops 5p	65		R1.3	2.6	2.7	16.2
†	F.P.	12/2	41	32	‡Kunick 10p	32½		1.0	2.4	4.2	12.9
§116	F.P.	-	121	115	‡Sykes-Pickavant 10p	118	+2	R5.25	2.0	6.1	11.1
§130	F.P.	-	138	123	TGI Group 1p	130	+4	R4.75	3.0	5.0	9.2
§80	F.P.	-	90	81	‡Titon 5p	81	-3	u2.35	2.7	4.0	12.8
††	F.P.	-	23	18	Verson Intl. 10p	19		b0.33	2.7	2.4	17.0
§80	F.P.	-	81	80	Waverley Min. Fin. 5p	80		-	-	-	-

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1987/88 High	1987/88 Low	Stock	Closing Price £	+ or -
-	-	-	110	90½	Ansbacher(H.) 9pc.Cnv.Sub.Ln. 1998	102½	
-	F.P.	-	132p	123p	Blue Circle 7⅞pc. Cnv.Cum.Red.Prf.	126p	+1
§91.54	F.P.	11/2	101⅛	91⅛	Brit.&Comm.10½pc. Un.Ln. 2012	91⅛	-⅛
100	Nil	-	4½pm	3pm	Cooper (F.) 6.5p Cnv.Red.Cnv.Pig.Prf.	4pm	-½
♦	F.P.	-	130p	113p	Granada 7.5p Cnv.Prf.	128p	
200	F.P.	15/6	113	107	Grt. Prtlnd. Est. 9½pc.Cv.Uns.Ln 2002	109	
100	F.P.	-	116	108	Morgan Crucible 7.5pc Net.Cv.Cm.Rd.Pf.	114	
-	F.P.	-	100¼	99⅞	N'wide Anglia 9⅞pc 23.1.89	99⅞	
165	F.P.	2/3	187p	170p	‡Sharpe & Law 8½pc.Cm.Rd.Pf 10p	170p	
100	F.P.	-	111	100	Stanley (A.G.) 5.75p Cum.Cnv.Red.Prf.	111	+1
100	F.P.	-	113	110	Widney 8.76pc. Cv.Cm.Rd.Pf. 2000 £1	113	+2
100	F.P.	-	115p	100p	‡Willaire Fixed Rate Cnv.Cum.Red.Prf.	111p	
-	F.P.	-	131	127	Woolworth 8½pc. Cnv.Uns.Ln. 2000	129	

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1987/88 High	1987/88 Low	Stock	Closing Price p	+ or -
IR300	Nil	-	70pm	65pm	Crean (J.)	65pm	
74	Nil	-	20pm	11pm	Howden Group	20pm	
10	Nil	-	1½pm	½pm	‡Imtec Group 10p	½pm	
120	Nil	-	9pm	7pm	ML Holdings 5p	7pm	
26	Nil	-	21pm	11pm	Paringa Mining 5p	11pm	-2
210	Nil	-	55pm	9½pm	‡Parkway 5p	55pm	+2
15	Nil	16/3	8½pm	3pm	Verson Intl. 10p	5pm	

Renunciation date usually last day for dealing free of stamp duty. a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on Prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ♥ Issued by tender. ♦ Offered to holders of ordinary shares as a rights. † Introduction. § Placing price. †† Reintroduction. ♦ Issued in connection with reorganisation merger or takeover. ‡ Allotment price. ‡ Unlisted securities market. ♦ Official London listing. D Including warrants entitlement. * Third Market.

FT CROSSWORD No.6,556

SET BY TANTALUS

ACROSS

1 and 6 Make space and help us to be delighted (7,2,5)
9 Bill meets heavyweight in West London (5)
10 According to Gilbert his lot is not a happy one (9)
11 Poor mother sat by junction to get temperature regulator (10)
12 Thomas Hood esteemed partly for poems (4)
14 At home their potential is to succeed (7)
15 Pressing time of day? (7)
17 Tom with a sweet may be seen in bed (7)
19 Live with a former wife and do say what you mean! (2,5)
20 Wine loot (4)
22 Steer farm vehicle to firm supplying materials (10)
25 A laboratory plant produces type of gypsum (9)
26 One note to lady gives the details (5)
27 Whole lot at assembly (5)
28 Poor signs affected forecast (9)

DOWN

1 Fix machinery (5)
2 Three can't manoeuvre this ballet leap (9)
3 French novelist joins Chuzzlewit to find bird (4,6)
4 Sediment is up in the store house (7)
5 Girl playing against time for compensation (7)
6 Leaders of party are considering the agreement (4)
7 Rover has name in Paris these days (5)
8 Wisdom after the event – hid things differently (9)
13 Union of parties – perhaps a need for it (10)
14 Continual fashionable tax once on worker (9)
16 New peas in tins I leave due to unsuitability (9)
18 Couple on short walk to dance (3,4)
19 Board of Trade on Jason's ship find fish relish (7)
21 Cunning art (5)
23 Flowers for girl on 1st September (5)
24 Reason for visit (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday February 27.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

[illegible]

FT UNIT TRUST INFORMATION SERVICE

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Phoenix Assurance Co Ltd
Phoenix House, Redcliff Hill, Bristol 0272 294941

Life Assurance Funds				
Wealth Assur.	365.0	384.7	—	—
Eb'r Ph. Eq.	334.1	356.3	—	—
Pension Plan Funds				
Phoenix				
UK Equity Acc.	157.1	165.3	-0.4	—
International Acc.	124.6	131.1	+0.5	—
Property Acc.	123.1	129.5	—	—
Fixed Interest Acc.	150.4	158.3	-0.4	—
Money Acc.	136.2	143.3	+0.1	—
Bldg. Soc. Link Acc.	133.2	140.2	+0.1	—
Special Mnged. Acc.0	141.2	148.6	-0.1	—
Phoenix/Framlington				
Intnl. Growth Acc.	83.0	87.3	+1.1	—
Amer & Gen. Acc.	77.0	81.8	+0.9	—
Capital Tst. Acc.	167.3	176.1	+0.7	—
Japan & Gen Acc.	174.5	183.6	+0.3	—
American Turn. Acc.	77.3	81.3	+1.0	—
Recovery Tst. Acc.	157.1	165.3	+1.5	—
Special Mngd Acc.	136.6	143.7	+0.8	—
Phoenix/GT				
International Acc.	119.1	125.3	+1.1	—
US & General Acc.	87.6	92.2	+2.0	—
Amer Spec Sits Acc.	60.4	63.5	+7.4	—
Japan & General Acc.	167.1	175.8	-0.1	—
Far East & Gen. Acc.	137.0	140.0	—	—
UK Capital Acc.	164.9	173.5	+1.3	—
European Acc.	129.0	135.7	+0.2	—
Special Mngd. Acc.	120.5	126.8	+1.0	—

Pioneer Mutual Insurance Co Ltd
16 Crosby Rd, N. Waterloo, Liverpool 051-928 6655

Managed Fund	255.5	268.8	—	—
Max Pen Inc & Cap Fds.	322.4	339.4	—	—
Money Fund	111.2	117.7	—	—
Pens. Mngd Fd (Init)	79.0	83.2	—	—
Pens Mngd Fd (Acc)	88.5	93.2	—	—
Pens FT30 Fd (Init)	121.1	127.5	—	—
Pens FT30 Fd (Acc)	135.6	142.8	—	—
Pen O'seas Mgd Fd (Init)	52.7	55.5	—	—
Pen O'seas Mgd Fd (Acc)	59.0	62.2	—	—
Pens Fxd Int Fd (Init)	106.6	112.3	—	—
Pens Fxd Int Fd (Acc)	114.4	120.7	—	—
Pens Deposit Fd (Init)	100.7	106.0	—	—
Pens Deposit Fd (Acc)	112.9	120.9	—	—

Premium Life Assurance Co Ltd

[illegible]

OFFSHORE AND OVERSEAS

MANAGEMENT SERVICES

[illegible]

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Interest Due	Stock	Price £	Last xd	Yield Int.	Yield Red.
10Nov 10May	Exch 10¼pc '88	100[illegible]	5.10	10.47	9.21
14Dec 14Jne	Treas 9¾pc Cv '88	100[illegible]	9.11	9.74	9.36
1Jan 1Jul	Transport 3pc '78–88	98[illegible]	25.11	3.05	7.09
25 Apr 25 Oct	Treas. 9½pc '88	100[illegible]	18.9	9.50	9.42
22 Aug 22 Feb	Treas 11½pc 1989	101[illegible]xd	18.1	11.28	9.47
18 Oct 18 Apr	Treas 9½pc Cnv 1989	100[illegible]	11.9	9.50	9.44
15Nov 15May	Treas 3pc 1989	95[illegible]	9.10	3.13	6.52
14Dec 14Jun	Treas 10½pc 1989	101[illegible]	9.11	10.39	9.57
1Feb 1Aug	Exch 10pc 1989	100[illegible]	29.12	9.94	9.56
29 Mar 29 Sep	Exch 11pc 1989	102[illegible]	24.8	10.78	9.58
15 Apr 15 Oct	Treas 5pc 1986–89	95[illegible]	8.9	5.22	7.70
15 May 15 Nov	Exch 10½pcCv '89	102½	9.10	10.02	8.74
15 Jul 15 Jan	Treas 13pc 1990‡‡	106	9.12	12.26	9.47
12 Aug 11 Feb	Exch 11pc 1990‡‡	102[illegible]	6.1	10.73	9.54
22 Sep 22 Mar	Exch. 12½pc 1990	105½	17.8	11.85	9.54
8 Nov 8 May	Treas. 3pc 1990	92[illegible]	2.10	3.27	7.10
15 Dec 15 Jun	Treas 8¼pc 1987–90‡‡	98[illegible]	9.11	8.37	8.93
16July 16Jan	Treas. 8pc Cv 1990	99[illegible]	–	8.07	8.37
25 Apr 25 Oct	Treas. 10pcCv 1990	101[illegible]	18.9	9.89	9.51
22 May 22 Nov	Exch 2½pc 1990	89	16.10	2.81	6.93
10 July 10 Jan	Treas 11¾pc 1991	105[illegible]	4.12	11.14	9.53
5Oct 5Apr	Funding 5¾pc '87–91‡‡	92[illegible]	1.9	6.20	8.40
13 Nov 13 May	Treas. 3pc 1991	88	7.10	3.41	7.22
12Jan 12July	Treas 10pc Cv '91 ‡‡	102[illegible]	7.12	9.76	9.13
25Apr 25Oct	Exch. 11pc 1991	104[illegible]	18.9	10.53	9.53
10Jan 10Dec	Treas. 8pc 1991	95[illegible]	1.11	[illegible]	9.47
22Jly 22Jan	Treas 12¾pc 1992‡‡	110[illegible]	19.1	[illegible]	9.57
21Aug 21Feb	Treas. 10pc 1992	101[illegible]xd	15.1	[illegible]	9.56
13Oct 13Apr	Treas. 8pc 1992 ‡‡	94[illegible]	11.4	[illegible]	9.50
7 Nov 7 May	Treas 10½pc Cv 1992‡‡	103[illegible]	1.9	[illegible]	9.57
11Dec 11Jun	Treas. 3pc 1992	83[illegible]	4.11	[illegible]	7.52
25 Feb 25 Aug	Exch. 12¾pc '92	109[illegible]xd	19.1	[illegible]	9.63
22Mar 22Sep	Exch 13½pc 1992	113[illegible]	17.8	[illegible]	9.67

Five to Fifteen Years

Interest Due	Stock	Price £	Last xd	Yield Int.	Yield Red.
15Oct 15Apr	Treas 10pc 1993‡‡	101[illegible]	8.9	[illegible]	9.59
14Jan 14Jul	Treas 12½pc 1993‡‡	111[illegible]	8.12	[illegible]	9.65
15Mar 15Sep	Funding 6pc 1993‡‡	91[illegible]xd	8.2	[illegible]	7.89
23May 23Nov	Treas 13¾pc 1993‡‡	117[illegible]	19.10	[illegible]	9.74
1 Sept 1 Mar	Treas 14½pc 1994‡‡	121[illegible]xd	25.1	[illegible]	9.73
27Oct 27Apr	Exch 13½pc 1994	116[illegible]	21.10	[illegible]	9.82
9Dec 9Jun	Treas. 10pc Ln. 1994‡‡	101[illegible]	2.11	[illegible]	9.63
22Feb 22Aug	Exch. 12½pc 1994	112[illegible]xd	18.1	[illegible]	9.81
17May 17Nov	Treas 9pc 1994‡‡	97½	12.10	[illegible]	9.50
25Jul 25Jan	Treas 12pc 1995	110[illegible]	21.12	[illegible]	9.81
1Nov 1May	Exch 3pc Gas 90–95	83[illegible]	25.9	[illegible]	6.13
21Jan 21Jul	Exch. 10¼pc 1995	102[illegible]	15.12	[illegible]	9.73

BRITISH FUNDS – Contd

Interest Due	Stock	Price £	Last xd
12Jan 12Dec	Exch. 12pc '13–'17	124[illegible]	5.11

Undated

Interest Due	Stock	Price £	Last xd
1Feb 1Aug	Consols 4pc	42[illegible]	29.12
1Jun 1Dec	War Loan 3½pc‡‡	37[illegible]	26.10
1Apr 1Oct	Conv. 3½pc '61 Aft	49[illegible]	25.8
5Apr 5Oct	Treas. 3pc '66 Aft	32[illegible]	1.9
5Ja Ap Jly O	Consols 2½pc	26[illegible]	1.12
1Apr 1Oct	Treas. 2½pc	26[illegible]	25.8

Index–Linked

Interest Due	Stock	Price £	Last xd
30 Sep 30 Mar	Treas. 2pc '88 (297.1)	134[illegible]	24.8
25 Jul 25 Jan	Do. 2pc '90(333.9)	118[illegible]	21.12
23Sep 23Mar	Do. 2pc '92‡‡ (385.8)	99[illegible]	17.8
16Mar 16Sep	Do. 2pc '96(267.9)	129[illegible]xd	8.2
24Mar 24Sep	Do 2½pc '01 (308.8)	108[illegible]	18.8
20Nov 20May	Do. 2½pc '03(310.7)	106[illegible]	14.10
19Jan 19Jly	Do. 2pc '06(274.1)	107[illegible]	14.12
20Nov 20May	Do. 2½pc '09(310.7)	101¼	14.10
23Feb 23Aug	Do. 2½pc '11(294.1)	105[illegible]xd	18.1
16Feb 16Aug	Do. 2½pc '13(351.9)	87[illegible]xd	11.1
26Jan 26Jly	Do. 2½pc '16(322.0)	94[illegible]	21.12
16Oct 16Apr	Do. 2½pc '20 (327.3)	92[illegible]	9.9
17Jan 17July	Do. 2½pc '24 ‡‡(385.3)	78[illegible]	11.12

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing, ie 8 months prior to issue. RPI for June 1987: 101.9 and for January 1988: 103.3
(rebased at 100 January 1987 conversion factor 3.945).

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

AMERICANS – Contd

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
Jan Apr Jly O	Rep NY Corpn $5	24⅝	10.12	$1.20	–	2.7
Mr Ju Se De	Rockwell Intl. $1	10⅝	9.11	72c	–	3.9
Oc Ja Ap Jly	Sara Lee $1(1/3)	22⅜xd	12.1	$1.20	–	3.0
Mr Ju Se De	Saul (B. F.) $1	19⅛	12.1	20c	–	1.1
Fb My Ag No	Southwestern Bell $1	21⅞	7.7	$2.32	–	5.8
–	♥Staley Continental‖	12¾	–	80c	–	3.4
Mr Ju Se De	Sun Co. Inc. $1	31¼xd	9.11	$3.00	–	5.3
Ma Ju Se De	TRW Inc. $0.625	26⅞xd	11.8	h$1.60	–	3.3
Mr Jn Sp Dc	Tenneco $5	22⅞xd	11.8	$3.04	–	7.3
June Dec	Do. 10pcLn.Stk. 91–5	195	13.12	10%	–	f4.7
Mr Ju Se De	Texaco $6.25	21½	31.7	$3.00	–	7.6
Mr Ju Se De	Time Inc. $1	49⅞	22.8	$1.00	–	1.1
Ja Ap Ju Oc	Transamerica $1	18⅞	29.12	$1.84	–	5.3
Fe My Au No	Transworld Corp $5	934p	11.11	20c	–	1.2
Mr Ju Se De	TRINOVA Corp	17⅜	9.11	56c	–	1.8
Mr Ju Se De	♥USX $1	27⅛	30.10	$1.20	–	3.8
Mr Jn Sp Dc	Utd. Technologies	21⅛	19.5	$1.40	–	3.6
Fb My Ag No	US West‖	31⅛	13.4	$3.20	–	5.8
Ap Jly Dc Jan	Waste Management $1	20⅛	15.12	36c	–	1.0
Mr Ju Se De	Whirlpool $1.0	16⅛	–	–	–	–
Mr Ju Se De	♥Woolworth $3½	25⅝	19.11	$1.32	–	3.1

CANADIANS

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
–	ABM Gold Corp ‖	265p	–	–	–	–
–	♥Abbot Energy Corp.	18p	–	–	–	–
–	♥Amer. Barrick Res.	10⅛	–	–	–	–
–	American Lightwave	41	–	–	–	–
	♥Ameco	29p	–	–	–	–
–	Augmitto Explo.	63p	–	–	–	–
Fb My Ag Nv	Bk. Montreal ‖	11⅝	9.11	$2.00	–	7.6
Ja Ap Jn Dc	Bk. Nova Scot. ‖	947p	29.11	72c	–	5.8
Ap Jy Dc Ja	BCE ‖	17¼	10.9	$2.40	–	6.1
May Nov.	♥Bow Valley‖	683p	15.12	40c	–	2.6
Ja Ap Jy Dc	♥Brascan‖	11¼	28.10	88c	–	3.4
–	♥Breakwater Res.	212p	–	10c	–	2.1

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES – Contd

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd.

[illegible]

INSURANCES

[illegible]

LONDON SHARE SERVICE

INSURANCES – Contd

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING – Contd

[illegible]

PROPERTY

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES – Contd

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND – Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS – Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES – Contd

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 27 per cent and allow for value of declared distribution and rights.

- ● Tap Stock
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♦ Not comparable
- ♦ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- † Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xR ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	67	
Craig & Rose £1	663	
Finlay Pkg. 5p	77	−1
Holt (Jos) 25p	£131½	

For IOM Steam see Shipping

IRISH

Fund 11¼% 1988	£100¾	
Nat. 9¾% 84/89	£100⅝	
Fin. 13% 97/02	£114⅝	
Arnotts	301	
CPI Hldgs	75	
Carroll Inds	150	+2
Hall (R. & H.)	108	+1
Helton Hldgs	45	+1
Irish Ropes	123	
Unidare	305	

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	35
Amstrad	15
BAT	45
BOC Grp	40
BSR	10
BTR	28
Barclays	48
Beecham	46
Blue Circle	42
Boots	26
Bowaters	38
Brit Aerospace	35
Brit. Telecom	22
Burton Ord	24
Cadburys	26
Charter Cons	32
Comm Union	35
Courtaulds	34
FKI Babcock	14
FNFC	25
Gen Accident	85
GEC	15
Glaxo	110
Grand Met	42
GUS 'A'	110
Guardian	07
GKN	30
Hanson	14
Hawker Sidd	48
ICI	100
Jaguar	35
Ladbroke	38
Legal & Gen	30
Lex Service	35
Lloyds Bank	29
Lucas Inds	62
Marks & Spencer	20
Midland Bk	35
Morgan Grenfell	35
NEI	10
Nat West Bk	60
P & O Dfd	52
Plessey	16
Polly Peck	32
Racal Elect	22
RHM	35
Rank Org Ord	60
Reed Intnl	45
STC	25
Sears	14
TI	35
TSB	12
Tesco	16
Thorn EMI	60
Trust Houses	22
T&N	20
Unilever	50
Vickers	18
Wellcome	42
Property	
Brit Land	28
Land Securities	48
MEPC	46
Peachey	48
Oils	
Brit Petroleum	25
Britoil	50
Burmah Oil	45
Charterhall	6
Premier	8
Shell	110
Tricentrol	18
Ultramar	24
Mines	
Cons Gold	100
Lonrho	29
RTZ	38

A selection of Options traded is given on the London Stock Exchange Report Page

This announcement is not an offer to purchase or a solicitation of an offer to sell Securities. The offer is made solely by the Offer to Purchase dated February 8, 1988 (the "Offer to Purchase") and the related Letters of Transmittal (together, the "Offer") and is not being made to, nor will tenders be accepted from or on behalf of, holders of Securities in any jurisdiction in which the making of the Offer or acceptance thereof would not be in compliance with the securities, blue sky or other laws of such jurisdiction. In those jurisdictions whose securities laws require the Offer to be made by a licensed broker or dealer, the Offer shall be deemed to be made on behalf of the Purchaser by Donaldson, Lufkin & Jenrette Securities Corporation ("DLJ") or one or more registered brokers or dealers licensed under the laws of such jurisdictions.

Notice of Offer to Purchase for Cash by

First City Acquisition Corporation

All Outstanding Floating Rate Notes due 1995 at

$450 Net Per $1,000 Principal Amount

All Outstanding 13¼% Notes due 1992 at

$450 Net Per $1,000 Principal Amount

All Outstanding Redeemable Floating Rate Restricted Debentures due 1991 at

$450 Net Per $1,000 Principal Amount

All Outstanding Floating Rate Subordinated Notes due 1996 at

$350 Net Per $1,000 Principal Amount

of

First City Bancorporation of Texas, Inc.

First City Acquisition Corporation, a Delaware corporation (the "Purchaser"), is offering to purchase all of First City Bancorporation of Texas, Inc.'s ("First City") outstanding Floating Rate Notes due 1995, 13¼% Notes due 1992, Redeemable Floating Rate Restricted Debentures due 1991 and Floating Rate Subordinated Notes due 1996 (collectively, the "Securities") in each case for the prices set forth above, all net to the seller in cash, upon the terms and subject to the conditions set forth in the Purchaser's Offer to Purchase and in the related Letters of Transmittal.

First City National Bank of Houston and its London branch are the Depositaries for the Offer.

THE OFFER WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON MARCH 8, 1988, UNLESS EXTENDED. THE TIME AT WHICH THE OFFER EXPIRES IS REFERRED TO HEREIN AS THE "EXPIRATION DATE." SECURITIES TENDERED MAY BE WITHDRAWN AT ANY TIME PRIOR TO THE EXPIRATION DATE.

The Offer is subject to certain conditions, including, among others, that there shall have been received, and not revoked or withdrawn, on or prior to the Expiration Date valid tenders of Securities representing at least 90% of the outstanding principal amount of the Securities. The Offer is also conditioned upon (i) the Purchaser receiving sufficient funds pursuant to a reorganization (the "Reorganization") of First City on terms satisfactory to it, so as to permit it to purchase and pay for all Securities tendered pursuant to the Offer; (ii) the receipt of certain assistance from the Federal Deposit Insurance Corporation (the "FDIC"); (iii) receipt of a new credit line; (iv) the purchase by the Purchaser of all of First City's assets in exchange for the assumption by the Purchaser of all of First City's liabilities; and (v) certain other conditions to the Offer and the Reorganization shall have been satisfied or waived.

Subject to the foregoing and to the other conditions specified in the Offer to Purchase, the Purchaser will accept all Securities validly tendered prior to 5:00 p.m., New York City time, on March 8, 1988. For purposes of the Offer, the Purchaser shall be deemed to have accepted for payment validly tendered Securities if, as, and when the Purchaser gives oral or written notice to a Depositary of its acceptance for payment of the tenders of the Securities.

The Purchaser may extend the Offer at any time and from time to time by giving oral or written notice to the Depositaries (with the approval of each of the FDIC, DLJ, and A. Robert Abboud). Any such extension will be followed as promptly as practicable by public announcement thereof.

Securities tendered pursuant to the Offer may be withdrawn at any time prior to acceptance for payment as provided in the Offer.

To be effective, a written, telegraphic, telex or facsimile transmission notice of withdrawal must (i) be timely received by the Depositary that received the tender at the address specified on the back cover of the Offer to Purchase to which such tender was made before such Depositary receives notice of acceptance from the Purchaser, (ii) specify the name of the person who tendered the Securities, (iii) contain the description of the Securities to be withdrawn, the certificate numbers shown on the particular certificates evidencing such Securities and the aggregate principal amount represented by such Securities, (iv) be signed by the holder of Securities in the same manner as the original signature on the applicable Letter of Transmittal (including any required signature guarantees) or be accompanied by evidence satisfactory to the Purchaser that the person withdrawing the tender has succeeded to the beneficial ownership of the Securities tendered, and (v) in the case of First City's Floating Rate Notes due 1995, be accompanied by the original of the Deposit Receipt issued by the Depositary when it received such Floating Rate Notes due 1995. The signature(s) on the notice of withdrawal must be guaranteed by an Eligible Institution as identified in the applicable Letter of Transmittal unless the tendered Securities have been tendered for the account of an Eligible Institution. If Securities to be withdrawn have been delivered or otherwise identified to a Depositary, a signed notice of withdrawal is effective immediately upon written, telegraphic, telex, or facsimile transmission notice of withdrawal (accompanied by the Deposit Receipt, in the case of First City's Floating Rate Notes due 1995) even if physical release of the Securities from the Depositary's control is not yet effected. In addition, in the case of Securities tendered by delivery of certificates for such Securities (other than First City's Floating Rate Notes due 1995), such notice must specify the name of the registered holder (if different from that of the tendering holder) and, in the case of Securities tendered by book-entry transfer, the name and number of the account at one of the Book-Entry Transfer Facilities as identified in the applicable Letter of Transmittal to be credited with the withdrawn Securities. Withdrawals may not be rescinded, and any Securities withdrawn will thereafter be deemed not validly tendered for purposes of the Offer. However, properly withdrawn Securities may be retendered by following one of the procedures described in the Offer to Purchase.

The Offer to Purchase and the related Letters of Transmittal are being mailed to record holders of Securities and will be furnished to brokers, banks, and similar persons whose names, or the names of whose nominees, appear on the Securityholder lists of First City or, if applicable, who are listed as participants in a clearing agency's security position listing for subsequent transmittal to beneficial owners of Securities. The Offer to Purchase and the related Letters of Transmittal contain important information that should be read before any decision is made with respect to the Offer.

Requests for copies of the Offer to Purchase and the related Letters of Transmittal and other tender offer materials may be directed to the Information Agent as set forth below, and copies will be furnished promptly at the Purchaser's expense.

The Information Agent for the Offer is:

The Carter Organization, Inc.

United States:
237 Park Avenue
New York, New York 10017
(800) 365-5500/(800) 221-3343
In New York: (212) 619-1100
Banks and Brokerage Firms please call:
(212) 883-8900

Europe:
The Carter Organization, Inc.
a member of
The VPI Group PLC
46 Grosvenor Gardens
London SW1W ODH
01-730-3456

The Dealer Manager is:

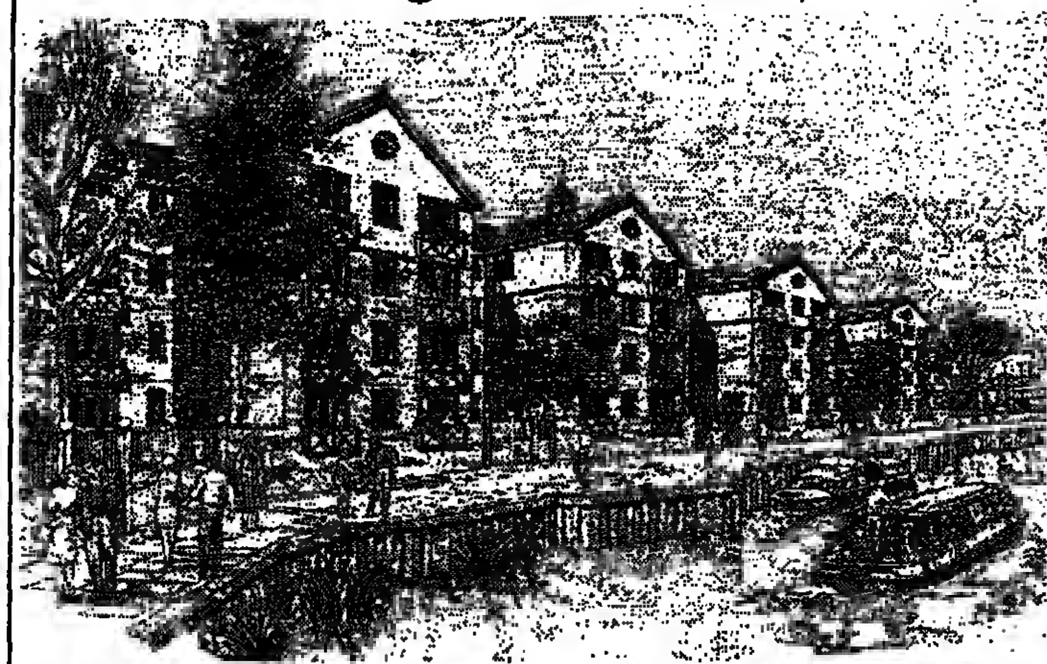
Donaldson, Lufkin & Jenrette
Securities Corporation

(212) 504-3519
(212) 504-3503

February 9, 1988

CONSTRUCTION CONTRACTS

Peterborough riverside housing



ST GEORGE has made its first move outside the London area with the announcement of a £5.5m riverside housing development near to the town centre of Peterborough. St George will soon start work to build 100 flats, many for first-time buyers, alongside the River Nene. The new homes will form part of the £32m "Rivergate" redevelopment of the southern portion of Peterborough town centre now being undertaken by Speyhawk. Construction is expected to start in the summer with the first flats ready for occupation in spring 1989. Prices for the one and two bedroom apartments, which will have direct access to a new riverside walkway, are expected to be in the £55,000-£60,000 price range.

Forest of Arden hotel

JT DESIGN BUILD, Bristol, has celebrated the arrival of 1988 with the announcement of awards valued at £26.6m. The largest project is for a 120-bedroomed hotel and leisure development at the Forest of Arden Golf and Country Club, near Birmingham.

Under a £7.7m contract, Country Club Hotels plans to capitalise on the 27 hole golf course to establish a hotel, leisure and country club complex. The contract is due for completion in June 1989. Another leisure contract has been awarded by the joint venture company set up by Country Club Hotels and Lord March's Goodwood Estates Company. Goodwood Park Hotel will be further developed to provide an additional 40 bedrooms, conference and leisure facilities. The £3.3m contract is due for completion in March 1989. The development will also involve the construction of an 18-hole golf course.

In Caterham, Surrey, work has started on a £6m contract to design and build a town centre shopping development and multi- storey car park for Sheraton JT. Due for completion in October 1989, the development consists of 24 shop units, a 30,000 sq ft supermarket for Safeway and a 500 space, three- storey car park.

Linked with the above is a contract at Oxted valued at £2.2m. Under this development the client is to provide 35,000 sq ft of offices for the local authority. The three- storey reinforced concrete-framed brick-clad offices will be ready for occupation in March 1989.

The University of Cambridge has awarded JT a £3.6m design-build contract for a new department of pharmacology building. The 40,000 sq ft, four-storey block is to be built using a reinforced concrete frame with brick cladding and will be completed by the end of September 1989. Due for completion early 1989 is a £2.1m, three storey office block at Enfield for Data Connections. The 19,000 sp ft offices sre to be the client's new UK headquarters.

The final award is a £2.7m contract at Radius Park near Heathrow Airport on behalf of CIN Properties. JT is to construct Phase 1 of the new "Hi-Tech Park", consisting of about 50,000 sq ft of single-storey Industrial units with two- storey offices. The overall development will ultimately provide almost 200,000 sq ft.

Motherwell leisure development

WIMPEY CONSTRUCTION UK has been awarded a £4m management contract by Morgan Grenfell (Local Authority Finance) to build a leisure development at Daisy Park, Motherwell, for the District Council. Due for completion in the summer of 1989 the complex will be one of the first to bring water and ice leisure activities into proximity. The area of water, some 350 sq.metres, will include a tyre ride and flume, wild water channel, water cannon, spa pool, water beds, geysera, external hot pool, and shallou area for mothers and young children. Incloded is a health suite with an Irish Roman bath and saunas. The 800 sq. metres ice trail will be on tuo levels linked by ice ramps, and the section will also feature a disco, log fire and facial solarium.

Housing orders

A subsidiary of the Stratford-upon-Avon based IDC Group has won local authority building contracts valued at £4.5m. The subsidiary, William Ellis (Etchingham) has been appointed to build 36 houses and flats for Tunbridge Wells Borough Council, 34 houses, flats and bungalows for Lewes District Council and 38 flats, bungalows and a community centre for Maidstone Borough Council. Contract values are £990,000, £1.16m, and £2.35m respectively, and work will be completed in 1989. IDC is a member of the Matthew Hall Group.

Tennis centres

SHAND has been awarded contracts totalling £1.6m for the design and constructfon of three indoor tennla centres. Two of the centres at Swansea and Sunderland have been won competitively in Shand's position as an accredited contractor to the Lawn Tennis Association under the Indoor Tennis Initiative. The third contract is for the St. Dominics Priory School in Stone which has been awarded through Shand's contact with the L.T.A., but is not specifically part of the Indoor Tennis Initiative and will not attract a grant under the ITI scheme.

★

INTEGRA, design and buifd division of the Wates Construction Group, has been awarded over £7m for contracts in Southampton and Reading. In Marsh Lane, Southampton, for Capital Counties, a three-storey concrete frame, brick and masonry, 3,300 sq.metre finance trading centre is to built. This air-conditioned building will be completed by November. For Orbit Developments (Manchester) at Kings Road, Reading, the company is building 7,000 sq.metres of air-conditioned offices, and 18 apartmeots with underground car parking to be executed within a 57-week programme.

WORLD STOCK MARKETS

AUSTRIA

FRANCE (continued)

ITALY

SWEDEN

BELGIUM/LUXEMBOURG

NETHERLANDS

SWITZERLAND

DENMARK

GERMANY

NORWAY

FINLAND

SOUTH AFRICA

SPAIN

FRANCE

JAPAN

AUSTRALIA

HONG KONG

SINGAPORE

[illegible]

CANADA

TORONTO

Closing prices February 12

[illegible]

MONTREAL

Closing prices February 12

[illegible]

Total Sales 4,428,280 shares

OVER-THE-COUNTER

Nasdaq national market, closing prices, February 12

Continued from Page 35

[illegible]

INDICES

NEW YORK

DOW JONES

[illegible]

STANDARD AND POOR'S

[illegible]

TRADING ACTIVITY

[illegible]

CANADA

TORONTO

[illegible]

NEW YORK ACTIVE STOCKS

[illegible]

Closing prices, February 12

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock		Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
25⅝	14	AAR	s	.36	1.8	16	327	20⅝	20	20⅝	+½
32½	21	AFG	s	.16	.9	11	405	25⅛	24¾	25⅛	+¼
27	10½	AGS	s			13	311	15⅝	14¾	15⅝	+⅜
10½	5⅝	AMCA					2	5⅝	5⅝	5⅝	
9⅜	3¼	AM	Intl			29	646	4	3⅞	4	+⅛
65½	26¾	AMR				11	2879	35¾	35⅛	35¾	
25	19	ANR	pf	2.12	9.4		5	22½	22½	22½	
12¼	6⅝	ARX	s			8	103	7¾	7½	7¾	+⅛
73½	39½	ASA		3	6.5		x539	46⅞	45½	46⅞	+1⅜
22⅝	9½	AVX				12	1164	14¼	13⅝	14¼	+⅛
67	40	AbtLab		1	2.1	18	2499	48⅝	47¼	46¼	+¾
28	15⅜	Abitibi	g				62	18⅞	18¾	18¾	+⅛
18¾	8½	AcmeC		.40	3.5		16	11⅝	11½	11½	
10½	6¾	AcmeE		.32b	3.7	24	10	8¾	8½	8¾	+⅜
20	14⅛	AdaEx		3.05e	19.		104	15⅞	15⅝	15⅞	+¼
19½	8⅞	AdamMl		.24	1.8	10	x230	12⅝	12⅛	12⅝	+¼
24⅛	7½	AMD					3118	10½	10⅛	10⅛	−⅛
56¾	25¼	AMD	pf	5	9.1		217	33½	32¾	33	−¼
11⅛	4⅝	Adobe				10	74	6⅛	6	6	
20½	16¼	Adob	pf	1.84	11.		23	17	16⅞	16⅞	−⅜
21¼	17½	Adob	pf	2.40	12.		213	20½	20¼	20¼	−⅛

Continued on Page 35

هكذا من الأصل

صكاذا من الأصل

NYSE COMPOSITE CLOSING PRICES

Continued from Page 34

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
9⅝	5	WridCp				§17	7	6⅞	6⅞	−¼
19½	10⅜	WrldVl				20	12⅞	12¾	12⅞	+⅛
81¾	39	Wrigly 1.04a		1.4	22	61	73	71¾	72½	
5½	1	Wurltzr				259	1	1	1	−⅛
17½	7	WyleL s .28		2.9	19	75	9⅝	9⅜	9¾	+½
30⅜	14½	Wynns	.80	3.0	42	743	21	18	19¾	+⅞
		X Y Z								
85	66	Xerox	3	5.4	19	1388	56¼	55⅜	55⅜	+⅛
58¼	52½	Xerox pf5.45		10.		128	53⅞	53¾	53¾	
31½	19⅛	XTRA	.84	2.2	15	442	29	29⅜	28⅞	+½
33⅞	17½	Torkin			11	256	28	27	27½	−½
7¼	2¼	Zapata				129	3⅛	3	5	−⅛
37	15½	Zayre	.40	2.1	7	8945	19½	18⅞	19¼	+½
16⅛	5⅜	Zemex	.40	3.9	12	x1	10¼	10¼	10¼	+¼
33⅝	10	ZenithE				2377	15⅜	15	15¼	+⅛
13½	2½	ZenLab				373	2⅞	2¾	2¾	
25½	13½	ZenNtl	.80	4.4	9	5	18⅛	18⅛	18⅛	−⅛
20⅜	11⅝	Zero	.36	2.4	16	236	15⅜	15	15¼	+⅛
30¾	15	Zurolo s .68		3.0	13	205	22⅜	21⅝	22⅜	+⅝
10⅜	7⅜	Zweig 1.06e		11.		389	9½	9⅜	9½	+⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices February 12

OVER-THE-COUNTER

Nasdaq national market, closing prices, February 12

Continued on Page 33

FOREIGN EXCHANGES

US trade figures, a small step but the right direction

BY JONAS CROSLAND

DECEMBER'S US trade figures were greeted last Friday with a sigh of relief, not because they were particularly good - the deficit in 1987 rose to $171.2bn from $156.2bn in 1986 - but because they were out of the way.

Sentiment now seems to be driven primarily by the statistic but not in a measured, analytical way, more a series of knee jerk reactions week after week and usually in contrary directions.

Witness last week. Most of the participation by fund managers, importers, exporters and a predominance of speculators or 'short-term investors', was driven by a monthly historic figure, erratic by definition and which would be revised twice over the next quarter. Yet trade figures remained the key factor.

A little towards the better end of expectations, the figures pushed the dollar firmer. That better sentiment may receive a further boost this morning with the release of Japanese trade figures for January. These are expected to show a sharp contraction in the surplus to around $2bn.

Thereafter US statistics begin to get a little thin on the ground. Tuesday's US industrial production could show a modest upturn of around 0.2 p.c., according to Mr Rupert Thompson, US economist at Morgan Grenfell, following another fall in unemployment. However, in the long term, there was likely to be an adverse reaction to an excessive build up of inventories, he added.

Housing starts for January, due for release on Wednesday, are hardly likely to provide any real clues on economic trends, mainly because the figure has been very erratic recently. Morgan Grenfell go for a rise of 4 p.c. after a fall of 16.2 p.c. in December and a 6.6 p.c. rise in November.

While the dollar may possibly take time off, sterling is facing the release of a large batch of statistics this week. These figures should play a key role in determining market sentiment in the run to the UK budget, which is now only four week's away.

A quick glance down the list would probably show a more bullish tone on balance. Interest rate fever, which marked the start of trading last week appears to have been overdone. However the market may well have the direction on the next move in interest rates right but probably for the wrong reason.

Fears of a return to inflation are now generally regarded as being somewhat wide of the mark and the latest thrust in official policy has been towards keeping a tight lid on the economy through, if necessary, higher interest rates.

UK PSBR figures due on Tuesday are likely to reflect an especially strong seasonal inflow of income and corporation tax, according to Chris Tinker at Phillips and Drew, which could result in a net repayment of £4bn.

This bullish tone is endorsed by Mr Neil Mackinnon, economist at Nomura Research Institute, where a net repayment of £5½bn is expected.

Money supply and bank lending figures on Thursday may provide more of a mixed reaction. The narrowly defined M0 may fall by 0.3 p.c., according to Nomura, while the year on year rate will increase to 4.8 p.c. from 4.2 p.c.; still below the targeted ceiling of 6 p.c. Bank lending presents a few more problems. The rather grey area of round tripping on bills has diminished as the differential on interbank rates and bill discounts narrows. However, earlier in the month, the opportunities were certainly greater. The uncertainty means that bank lending projections for January vary from £4bn to £5bn.

£ IN NEW YORK

Feb.12	Close	Previous Close
£ Spot	1.7400-1.7410	1.7595-1.7505
1 month	0.33-0.30pm	0.33-0.31pm
3 months	1.14-1.11pm	1.15-1.11pm
12 months	4.30-4.20pm	4.30-4.20pm

Forward premiums and discounts apply to the US dollar

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Feb.12	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.2090	+1.77	+1.02	±1.5344
Danish Krone	7.85212	7.89994	+0.60	-0.15	±1.5404
German D-Mark	2.05853	2.06460	+0.29	-0.46	±1.0981
French Franc	6.90403	6.98125	+1.12	+0.37	±1.3674
Dutch Guilder	2.31943	2.31846	-0.04	-0.79	±1.5012
Irish Punt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

STERLING INDEX

[illegible]

POUND SPOT- FORWARD AGAINST THE POUND

Feb.12	Day's spread	Close	One month	% p.a.	Three months	% p.a.
Portugal	241.03-244.40	241.10-242.10	82-198cdis	-6.95	262-556dis	-6.77
Spain	200.57-201.63	200.90-201.20	29-58dis	-2.60	94-133dis	-2.26
Italy	2191¼-2201¾	2194½-2195½	par-6lire dis	-1.64	2-12dis	-1.28
Norway	11.24½-11.35	11.27-11.28	3¾-5¼ore dis	-4.72	12⅞-14⅜dis	-4.86
France	10.05-10.08¾	10.06-10.07	1½-½cpm	1.19	4-2⅞pm	1.32
Sweden	10.58¾-10.64½	10.58¾-10.59¾	par-1¼ore dis	-0.64	⅛pm-⅝dis	-0.07
Japan	227½-228¾	227¼-228¼	1¼-1⅛ypm	4.60	3¼-2⅞pm	5.04
Austria	20.89-20.95	20.89-20.92	8½-7⅞gropm	4.70	26¾-23⅝pm	4.84
Switzerland	2.44¼-2.45¼	2.44¼-2.45¼	1⅜-1⅛cpm	7.05	5-4¾pm	7.56

Belgian rate is convertible francs. Financial franc 62.40-62.50. Six-month forward dollar 2.33-2.28cpm 12 month 4.33-4.23cpm

CURRENCY RATES

[illegible]

All SDR rates for February 10

CURRENCY MOVEMENTS

[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1975=100) *Rates are for Feb.11

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Feb.12	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.7250-1.7566	1.7395-1.7405	0.33-0.30cpm	2.17	1.15-1.10pm	2.59
Ireland†	1.5515-1.5695	1.5535-1.5545	0.17-0.12cpm	1.13	0.68-0.58pm	1.63
Canada	1.2620-1.2653	1.2620-1.2630	0.18-0.22cdis	-1.90	0.52-0.57dis	-1.72
Netherlands	1.9000-1.9350	1.9220-1.9230	0.41-0.39cpm	2.52	1.25-1.22pm	2.59
Belgium	35.43-35.90	35.75-35.85	3dis-par	-0.50	7-3pm	0.50
Denmark	6.483¾-6.561½	6.53¾-6.54¼	0.85-1.45oredis	-2.12	3.40-4.05dis	-2.29
W. Germany	1.6945-1.7220	1.7115-1.7125	0.45-0.42pfpm	3.05	1.38-1.33pm	3.16
Portugal	138¾-140¼	140-140¼	85-110cdis	-0.42	250-300dis	-7.91
Spain	114.35-116.12	115.75-115.85	25-40cdis	-3.36	110-140dis	-4.31
Italy	1247-1266	1260¾-1261¼	3.00-4.50liredis	-3.56	10.50-13.50dis	-3.80
Norway	6.44¼-6.48¾	6.47¾-6.48¼	3.55-3.90oredis	-6.93	11.95-12.35dis	-7.53
France	5.72¾-5.81½	5.78¼-5.78¾	0.35-0.55cdis	-0.93	1.75-2.05dis	-1.31
Sweden	6.05-6.10½	6.08¼-6.08¾	1.30-1.50oredis	-2.76	3.90-4.20dis	-2.66
Japan	129.15-131.70	131.10-131.20	0.29-0.26ypm	2.52	0.82-0.77pm	2.43
Austria	11.90-12.04	12.02¾-12.03¼	2.50-2.20gropm	2.33	7.40-6.40pm	2.28
Switzerland	1.3822-1.4200	1.4065-1.4075	0.63-0.58cpm	5.17	1.75-1.70pm	4.92

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 35.85-35.95.

EURO-CURRENCY INTEREST RATES

Feb.12	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	8⅞-7⅞	8¼-8	8⅞-8¾	9⅛-9⅛	9⅝-9½	9⅞-9¾
US Dollar	6½-6⅜	6⅝-6½	6⅝-6½	6⅞-6¾	6⅞-6⅞	7⅛-7
Can. Dollar	N/A	8⅝-8¼	8⅝-8¼	8⅝-8⅝	8⅞-8⅝	8⅞-8⅝
D. Guilder	N/A	3⅞-3⅝	3⅞-3⅝	3⅞-3⅞	4⅛-4	4⅛-4⅛
Sw. Franc	1¼-1	1¼-1	1⅜-1⅛	1⅞-1⅝	2⅛-2⅛	2⅞-2⅞
Deutschmark	3⅝-3¼	3⅝-3¼	3⅞-3⅝	3⅞-3⅝	3⅞-3⅞	3⅞-3⅝
Fr. Franc	7¼-7⅛	7⅜-7⅛	7½-7⅜	7⅞-7⅝	8⅛-8¼	8½-8⅜
Italian Lire	11¼-9¼	10⅜-9½	10½-10	10⅞-10⅝	10⅞-10½	11⅛-10⅞
B. Fr. (Fin)	6¼-6⅛	6⅜-6⅛	6⅜-6⅛	6⅝-6⅜	6⅞-6⅝	6⅞-6⅝
B. Fr. (Con.)	6⅜-6	6⅜-6	6½-6⅜	6½-6⅜	6⅞-6⅝	6⅞-6⅝
Yen	N/A	3⅞-3⅝	3⅞-3⅝	3⅞-3⅞	4⅛-4	4⅛-4⅛
D. Krone	8⅝-8⅜	8⅝-8⅜	9⅛-8⅞	9⅛-9	9⅜-9	9⅞-9⅝
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long term Eurodollars: two years 8-7⅞ per cent; three years 8⅛-8 per cent; four years 8⅜-8¼ per cent; five years 8⅝-8½ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Feb.12	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
F Fr.	0.993	1.728	2.957	226.7	10.	2.431	3.322	2180	2.184	61.87
S Fr.	0.408	0.711	1.217	93.26	4.114	1	1.366	896.7	0.898	25.45
H Fl.	0.299	0.520	0.890	68.25	3.010	0.732	1	656.2	0.657	18.62
Lira	0.456	0.793	1.357	104.0	4.588	1.115	1.524	1000.	1.002	28.38
C $	0.455	0.791	1.354	103.8	4.579	1.113	1.521	998.2	1	28.33
B Fr.	1.605	2.793	4.780	366.5	16.16	3.929	5.369	3523	3.530	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

OTHER CURRENCIES

[illegible]

*Selling rate

FORWARD RATES AGAINST STERLING

	Spot	1 mth	2 mths	6 mths	12 mths
US Dollar	1.7400	1.7369	1.7288	1.7170	1.6972
D-mark	2.9775	2.9645	2.9348	2.8900	2.8063
French Fr.	10.065	10.064	10.062	10.060	10.053
Swiss Fr.	2.4475	2.4325	2.4021	2.3598	2.2899
Yen	228.25	227.35	225.40	222.40	210.75

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls-settlements Mar	Calls-settlements Jun	Puts-settlements Mar	Puts-settlements Jun
116	2.46	4.03	0.08	1.26
118	1.06	2.51	0.32	2.13
120	0.16	1.55	1.42	3.17
122	0.03	1.10	3.29	4.36
124	0.01	0.48	5.27	6.10
126	0.00	0.28	7.26	7.54
128	0.00	0.15	9.26	9.41
130	0.00	0.08	11.26	11.34

Estimated volume total, Calls 3865 Puts 4464
Previous day's open int: Calls 47296 Puts 31826

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-settlements Mar	Calls-settlements Jun	Puts-settlements Mar	Puts-settlements Jun
82	11.60	11.06	0.00	0.12
84	9.60	9.17	0.00	0.23
86	7.60	7.35	0.00	0.41
88	5.61	5.63	0.01	1.05
90	3.62	4.28	0.02	1.34
92	2.03	3.11	0.07	2.17
94	0.41	2.00	0.45	3.06
96	0.06	1.13	2.10	4.19

Estimated volume total, Calls 561 Puts 862
Previous day's open int: Calls 1478 Puts 1787

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls-settlements Feb	Calls-settlements Mar	Puts-settlements Feb	Puts-settlements Mar
16000	12.67	14.45	0.12	1.90
16500	8.11	10.85	0.56	3.30
17000	4.39	7.83	1.84	5.28
17500	1.92	5.42	4.57	7.87
18000	0.66	3.59	8.11	11.04
18500	0.17	2.28	12.62	14.73
19000	0.03	1.39	17.48	18.84
19500	0.01	0.81	22.46	23.26

Estimated volume total, Calls 0 Puts 3
Previous day's open int: Calls 12 Puts 102

LIFFE £/$ OPTIONS
£25,000 (cents per £1)

Strike Price	Calls Feb	Calls Mar	Calls Apr	Calls Jun	Puts Feb	Puts Mar	Puts Apr	Puts Jun
1.65	9.15	9.27	9.46	9.67	0.22	0.89	1.46	2.04
1.70	4.89	5.63	6.06	6.45	1.06	2.25	3.06	3.82
1.75	2.02	3.00	3.54	4.00	3.19	4.62	5.54	6.37
1.80	0.60	1.38	1.86	2.30	6.77	8.00	8.86	9.67
1.85	0.12	0.54	0.88	1.22	11.29	12.16	12.88	13.59
1.90	0.02	0.18	-	0.60	16.19	16.80	-	17.97
1.95	0.00	-	-	0.27	21.17	-	-	22.64

Estimated volume total, Calls 0 Puts 0
Previous day's open int: Calls 287 Puts 597

LONDON SE £/$ OPTIONS
£12,500 (cents per £1)

Strike Price	Calls Feb	Calls Mar	Calls Apr	Calls Jun	Puts Feb	Puts Mar	Puts Apr	Puts Jun
1.60	-	23.90	-	23.80	-	0.30	-	0.50
1.65	-	14.80	-	13.66	-	0.25	-	1.30
1.70	3.70	4.60	6.20	6.20	0.35	1.30	2.50	4.10
1.75	0.30	1.90	3.75	4.10	1.60	3.35	4.70	5.95
1.80	0.30	0.60	2.15	2.00	4.20	6.55	7.90	9.20
1.85	0.30	0.30	1.40	1.60	10.60	10.30	10.70	13.10
1.90	0.30	0.30	0.30	0.55	15.60	15.60	16.10	16.00

Estimated volume total, Calls N/A Puts N/A
Previous day's open int: Calls 686 Puts 674

PHILADELPHIA SE £/$ OPTIONS

[illegible]

LIFFE EURODOLLAR OPTIONS

[illegible]

LONDON

[illegible]

CHICAGO

[illegible]

CURRENCY FUTURES

LIFFE-STERLING £25,000 $ per £	Close	High	Low	Prev.
Mar	1.7383	1.7370	1.7370	1.7580
Jun	1.7263	1.7384	1.7251	1.7465
Sep	1.7150	1.7150	1.7150	1.7340

Estimated volume 4(19)
Previous day's open int. 247(252)

[illegible]

TOTAL VOLUME IN CONTRACTS: [illegible]

BASE LENDING RATES

[illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

[illegible]

MONEY MARKETS

Inflation stays low despite a few jitters

UK clearing bank base lending rate 9 per cent from February 2

A REMARK by Chancellor Lawson, suggesting little need for another rise in base rates just yet, effectively removed any lingering doubts about the lack of wisdom seen in markets last Monday. The sharp rise in interest rates, and discount houses keenly unloading long dated paper, bore some of the hallmarks more readily associated with a sinking ship.

Why the panic? Uncertainty and fear can play some nasty tricks at times and the recent outbreak of industrial unrest joining with suggestions of higher wages and unit labour costs, proved to be sufficient. Certainly the authorities are firm in their anti-inflationary stance and seem equally determined to prevent the cost of higher wage settlements being borne by a depreciation in sterling. So interest rates may well be increased but not necessarily because of a resurgence in inflation.

Analysts at James Capel point out that January's decline to a rate of 3.3 p.c. was the third consecutive fall, and they are looking for a decline by April to nearer 3 p.c. Pressure from the public sector, not the private sector is likely to push inflation to nearer 4 p.c. by the end of the year, they added. One of the added problems is that higher wage costs can be sustained as long as they are matched with increases in productivity.

FT LONDON INTERBANK FIXING

(11.00 a.m. Feb.12) 3 months US dollars		6 months US Dollars	
bid 6¾	offer 6⅞	bid 6⅞	offer 6⅞

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

MONEY RATES

NEW YORK (4pm)

		Treasury Bills and Bonds			
Prime rate	8½	One month	5.13	Three year	7.41
Broker loan rate	7½	Two month	5.45	Four year	7.59
Fed.funds	6⅝-⅞	Three month	6.10	Five year	7.78
Fed.funds at intervention	6½	Six month	6.26	Seven year	8.07
		One year	6.63	10-year	8.26
		Two year	7.22	30-year	8.45

Feb.12	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	3.20-3.30	3.15-3.25	3.20-3.30	[illegible]	[illegible]	[illegible]
Paris	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Zurich	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Amsterdam	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tokyo	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Milan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brussels	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dublin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON MONEY RATES

[illegible]

FINANCIAL TIMES

THE FIRST 100 YEARS

SPECIAL REPORT

A span across a century of change

By David Kynaston

Lying at the heart of the history of the Financial Times is a merger, little noticed at the time, that took place in 1945 between two rather small-time, City of London newspapers. The two papers that came together that year were the Financial News and the Financial Times, creating a single paper, the modern Financial Times, that was to attain a breadth and stature previously undreamt of in financial journalism. Universally renowned for its accuracy and objectivity, the FT of the late 1980s is in a very real sense the progeny of that fortunate marriage of more than 40 years ago.

The elder of the two original papers was the Financial News, founded in 1884. Four years later it was followed by the Financial Times, which soon after going pink in 1893 had established rough parity with the FN, making them London's two leading financial dailies. Why was the late nineteenth century so propitious for this type of journalism? The answer lies less in Britain's continuing industrial supremacy (being eroded though it was) than in the fact that this period saw the absolute dominance of the City of London as the world's leading international financial centre, a dominance that lasted without serious competition until 1914. The main elements of that paramount position are well known: the strength of London's international money market; the versatility of her long-term international capital market; and the adoption by the rest of the world of the gold standard. Francis Hirst, Edwardian editor of the Economist, tried to encapsulate what the City was:

'It is the greatest shop, the greatest store, the freest market for commodities, gold and securities, the greatest disposer of capital, the greatest dispenser of credit, but above and beyond, as well as by reason of all these marks of financial and commercial supremacy, it is the world's clearing house'.

For a prospective financial paper the key word was securities - in other words, the London Stock Exchange and that murky but populous world of touts and half-commission men, outside brokers and speculators, spinning off from it. By the 1880s the Stock Exchange had been in existence in Capel Court for almost a century, and its membership comprised some two and a half thousand brokers and jobbers who traded in almost two thousand quoted securities. It was a somewhat hermetic world, ripe for trenchant comment and comprehensive, up-to-the-minute information, but as yet the fourth estate had almost entirely failed to provide that service on behalf of what was a rapidly expanding investing public.

This was this gap that the Financial News and the Financial Times now proceeded to fill. Of the two papers, it was generally the FN that was to the fore, pioneering what contemporaries as well as historians of the press came to recognise as the 'new' financial journalism. As early as 1885 it was the first paper to publish the 'tape' prices collected through the Stock Exchange day by the Exchange Telegraph Company, thereby in its own words placing 'all our readers upon an equal footing with the favoured few in London'; over the next ten years or so it fearlessly exposed a whole series of financial scandals and frauds, inevitable symptom of what was still a lightly regulated market; and during the phenomenal rubber boom of 1910, when the scenes on the floor of the Stock Exchange were so intense that one day a member who fainted at eleven o'clock was not picked up until the crowd that had been unwittingly supporting him started to leave at four, it was the FN that showed the verve and imagination to reach out for a new type of investor through its daily column, Voice of the Rubber Public, in which correspondents vied with each other to express opinions about the respective merits of the leading rubber shares of the day. Propagating and encouraging popular capitalism long before the term was invented, the late-Victorian and Edwardian financial press knew what its market was and went for it at full tilt.

But if the main focus was the stock market, and to a lesser extent London's other principal financial and commercial markets, the concerns of both the FN and the FT in practice extended much further. One should hardly be surprised: the City at this stage was far more concerned with financing gold mines in South Africa or railways in South America than, say, cotton mills in Lancashire, and the preoccupations of the financial press naturally reflected those global priorities. A random week in August 1911, for example, shows the FN as having printed no less than forty-one major articles or 'specials', with topics including British capital in the Dutch East Indies, the Denver & Rio Grande Railway, Canadian grain trade, and Roumanian crude oil production. The strongly pro-imperial FN also at this time ran a weekly Empire Section, providing an abundance of information about the opportunities for investment in the dominions and colonies, where ever-more British capital was now flowing. While as for readership, not only did the FN from 1907 to 1914 publish a continental edition daily in Paris, but at the FT's AGM in 1911 a shareholder said that it might be of interest to the directors to learn that the previous year when he made a trip through Siberia, China, and the East, he found the Financial Times in all the clubs, and there was quite a run on it.

There was also an awareness, if somewhat patchy, of the rapid and profound technological changes going on, especially in the field of transport. In 1896 an FT special correspondent managed to accompany (on train and cycle) the famous London-to-Brighton motor-car rally as far as Reigate before giving up and concluding thot for the invention to 'become popular as well as useful', science would have to 'find a way for minimising smell, sound and vibration'. Thirteen years later, no correspondent was on hand to witness Bleriot's historic flight, but both papers had brief reports of the event, and the FT's editorial page even included the following short 'leaderette':

'The arrival of the first cross-Channel passenger by aeroplane has been followed by a fall of ½ in Dover "A". We learn on the best authority, however, that the South-Eastern (railway company) does not intend to 'scrap' its steamboats yet. Possibly the Shareholders' Committee will inquire at the next meeting why the Company is so backward with its aeroplane service'.

The facetious tone was perhaps pardonable, though in its way was indicative of that perennial (if sometimes overstated) gulf between the City and the real world or economy.

Still, as one of the FN's main stories that same day indicated, there were other, graver matters on the more immediate horizon. 'Government Decides on Eight Dreadnoughts', ran the headline, and over the following five years the unstable state of Anglo-German relations presaged the worst. Yet there existed a widespread belief (typified by Norman Angell's best selling book *The Great Illusion*) that international commercial interests had become so entwined as to render war between nation states inconceivable. It was a belief to which the editor of the FN, Ellis Powell, fully subscribed and which imbued the confident ethos of the paper. 'The financial and economic forces have become the predominant factors in our twentieth-century life', he wrote in 1912, adding: 'This is a distinct gain for humanity as a whole, since political forces are capable of being distorted, minimised, and outwitted, while economic power is the absolute and inexorable auxiliary of every effort to advance the prosperity of the world'.

The guns of August two years later came as a bitter shock, but both the FN and the FT fully accepted the government line thst Britain had no alternative but to intervene. When the pieces were picked up in 1918, there was no denying the dire implications. Britain's National Debt had increased *tenfold*; a quarter of her investment abroad had been liquidated; and Wall Street had taken advantage of America's three years of neutrality to fulfil many of London's traditional functions. Moreover, from the point of view of a City no longer impervious to the state of the British economy, the condition of that economy could only be described as poor. In particular, the classic nineteenth-century export industries - coal, iron and steel, textiles and shipbuilding - had lost many of their *markets* and in *the post-war world* would *show* few signs of being sble to regain them.

For the financial press as a whole, the war had inevitably been a strain - with skeleton staffs, severe paper rationing and, in the context of much-reduced City activity, sharp drops in circulation and advertising - but for the FN it had been something worse. Compounding these problems was the deep and protracted internal strife that racked the paper's management during these years, a condition aggravated by the tendency of the editor to use the FN as a crude propaganda sheet in a hysterical campaign designed to uncover the so-called 'unseen hand' of traitors in high places. It was a campaign that fundamentally alienated its City readership, which was still the core constituency and then as ever placed accurate reportage at a premium and disliked subjective rhetoric. By the time the war ended, the FN had lost much of its original authority, was in a poor commercial position, and would face a long uphill struggle to recover.

The FT by contrast was not only in a relatively sound state, but also from 1919 had the inestimable advantage of coming under the astute management of the Berry brothers, who already owned the Sunday Times and would later take over the Daily Telegraph. Under their auspices the FT soon assumed what would become its basic inter-war character - a character that may be fairly described as limited in range and often dull, but at the same time utterly reliable in its coverage of all the relevant financial news.

Yet, for a financial paper of ambition - which on the whole the FT was not - the inter-war period represented a time of great opportunity, almost because of the wholly altered economic outlook for Britain and other western powers. It was true that the pre-1914 era of a liberal, open and integrated international economy, with free capital flows, was over and that faltering attempts to reconstruct it would be rudely if not permanently dashed by the depression of the early thirties. But *against that*, it was to be one of the basic facts of inter-war life, not only in Britain, that economic questions now dominated politics and political discourse to a far greater extent than they had before the war. This was true in the 1920s whether in terms of currency policy or budgetary deficits, price levels or trade balances, and was even more so during the 1930s, a *decade* of *protectionist* and *centrally*-managed economies. These and a host of other more or less recondite themes increasingly demanded accessible, readily digestible presentation and explanation.

It was much to the credit of the FN that from the mid-twenties, under a series of exceptionally able editors and defying the logic of low circulation, limited resources and, for much of the time, world-wide depression, it yet managed to a great extent to rise to that major challenge. It did so essentially by adopting a policy of recruiting bright young journalists and using them to turn the paper into a more thoughtful and outward-looking organ than the FT, though retaining the stock market as the principal day-to-day focus. It was, in effect, a taking of the high ground, and key figures included Paul Einzig, who in 1926 began his acclaimed Lombard Street column on monetary matters; Hargreaves Parkinson, the first Lex and prophet of what would become the cult of the equity; and Otto Clarke, who in 1935 initiated the celebrated 30-Share index; like the Lex column later taken over by the FT. Yet for all the talent at the FN's disposal, it was often hard work to make ends meet, especially during the slump of the early thirties, and the paper's circulation was never more than about a third of the FT's level of some 30,000.

Even or if the character of the two papers was fundamentally different, there was however broad agreement between them over the great question of the day: namely, how best to restore the pre-war splendours of the British economy and that international financial system centred on London There was rarely a suggestion that there might be a conflict between these two desirable aims, and for most of the period both papers more or less saw the answer in terms of what the FT in December 1920 called 'the movement for a rigid and relentless economy', an answer reinforced a few days later by a major article exposing 'The Orgy of National Extravagance'. Predictably, they both celebrated the return to the gold standard in 1925 ('a real stride towards world recovery', according to the FN) and six years later mourned Britain's enforced departure from it. Through the 1930s, the FN was, as one would expect, rather more critical than the FT of tha National Government's cautious economic policies, referring *bitterly* in 1932 to 'a *lack of grip* and a failure of courage consequent upon the absence of conviction'. But for all its critical edge, together with awareness of the human suffering of industrial Britain, it would be a mistake to imagine that the FN was anything like Keynesian in its approach to economic policy. Instead, it preferred, as in 1933, to call in pragmatic fashion for 'a bold, healthy rate of spending wherever it can be financially justified on its merits - neither a timid parsimony nor a spending mania'.

By the mid-thirties, with the worst of the depression past, all eyes inevitably turned to the darkening international situation. The FT's sympathies were with the appeasers, typified by its arguing in 1936 that out of Hitler's occupation of the Rhineland there might 'well emerge in the end a clearer prospect of European peace than has existed for a generation past'. The FN's position was more complicated. Its chairman, Brendan Bracken, was a close associate of Churchill, and at the tima of the Rhineland the paper called on its readers to 'face the clear fact of Germany's all-embracing policy of expansion'. But two years later, following the eleventh-hour Munich conference to preserve peace and in the context of massive City relief at its outcome, the FN declined to offer a verdict either way on the pact itself, but wondered hopefully whether 'the agreements of the last couple of days may in the near future be expanded into a formal Four-Power Pact, which would bring back to life the old idea of the Concert of Europe'. Hitler's occupation of Prague in March 1939 showed the worth of such talk, and henceforth both papers fully supported the new aggressive stance of British foreign policy. 'It was inevitable that sooner or later', asserted the FN in September 1939, 'we should have to fight to check Germany's drive to world supremacy'; while the FT's leader, 'Our War for Peace', expressed belief in the justness of the cause and confidence in victory. At the last, there was no snivelling about markets in a state of collapse but, instead, a shared resolve.

Again the papers shrank in size and readership - at one stage the FN's circulation was barely 2,000 - but there were some characteristic responses to key harbingers of the eventual post-war dispensation. In 1942 the FN welcomed the laying of the intellectual foundations of the Welfare State, but, according to the FT, 'the Beveridge plan, in its main outlines, is that of the Trades Union Congress'. In 1944 the government's White Paper declaring full employment to be the indispensable goal of future administrations was accorded a lukewarm welcome by the FT, whereas the FN's cartoonist drew a sympathetic sketch entitled 'Never Again!', showing long queues outside an employment exchange.

That same year, in the wider world, the Bretton Woods arrangements for the post-war monetary and trading order were broadly approved by both papers, though the FT's anxiety about whether the proposed World Bank would be sufficiently selective in making its loans was minor compared with the FN's grave reservations about the system of IMF quotas that gave the United States 'such a figure as will make her attitude, at any future moment, decisive to all intents and purposes'.

Yet few could deny that the truly epochal event of world history was the one that took place only a few weeks before the end of that long, usually friendly rivalry between the two papers. In a word: Hiroshima. The FT - staggering as it might seem - hardly recorded the event. The FN not only ran a front-page piece on the story ('one of the main topics of conversation yesterday in the City, as it was everywhere, was the atomic bomb'), but also devoted a lengthy editorial to its long-term implications. After offering the opinion that 'if handled with wisdom, the new weapon will prove to be a most powerful instrument, making for permanent peace', most of the leader concerned itself with the economic possibilities. It discussed the various ways in which atomic power might be harnessed for industrial purposes, referred confidently to how 'informed commentators say that a teacupful of the new substance would be sufficient to drive the Queen Mary across the Atlantic', and concluded in suitably portentous if tentative manner:

'It may be that yesterday's announcement marks the beginnings of the end of the Coal Age, and the first step towards a new industrial era that will mean a complete realignment of economic power between the nations. But that, at this stage, is perhaps looking rather far ahead'.

Early in 1945 the FT's owner, Lord Camrose (the former Sir William Berry), made the rather capricious decision to offer his paper to the FN. He did so partly because of poor health; partly because he wished to concentrate the family energies on the Daily Telegraph; but above all because he anticipated, unlike most people, a Labour victory in the general election later thst year and did not believe that in the changed post-war conditions the City would be able to sustain two financial dailies. Bracken on behalf of the FN responded to the offer with alacrity, and on October 1 1945 the two papers became one. This new paper took the name of the FT on account of its higher circulation, its greater commercial clout, and also no doubt its pink paper, that most special of marketing advantages.

The FN thus nominally died as a paper, but its spirit very much lived on, especially through the people who now took the top jobs on the merged paper. Chairman of the new FT, until his death in 1958, was Bracken; managing director was his protege Lord Moore, later Lord Drogheda; and the first two editors, *Hargreaves Parkinson until* 1949 and then Gordon Newton, were both former FN men. Severe newsprint restrictions handicapped the growth of the paper until at least the early 1950s, but the new FT soon embodied the best characteristics of its two predecessors, as well as acquiring several notable ones of its own.

This new creation could not have flourished as it did if the City itself had withered as a force, as indeed many contemporaries in the immediate aftermath of the war expected that it would. After all, the British economic position by 1945 was a fairly disastrous one, with many overseas investments liquidated, the export trade in shreds, the industrial base much truncated, and the level of debt alarming. Moreover, the foreign exchange market, the gold market and the majority of commodity markets remained closed until the 1950s; the floating of foreign issues was severely restricted; and the nationalisation and fiscal policies of the Labour government were naturally inimical to the Stock Exchange. In this potentially grave situation, the City not only showed its traditional resilience, re-establishing itself with impressive speed and assurance as both the primary centre of foreign trade financing and the largest international insurance market, but also it was crucially helped by the surprising failure of New York as the rival international centre to capitalise on the almost total dominance of the dollar in these post-war years. Various explanations have been suggested for this failure, but whatever the cause the striking fact was that by, say, the early 1960s tha New York market was exporting barely a third of the capital that London had done on the eve of the First World War. As a result the post-1945 City remained for at least the next quarter of a century one of the two big players on the world financial stage.

It was this renewed City base that the FT now fortified and sought to make impregnable from the competition of less specialist papers. Highly reliable coverage of British company news and results was developed, while much attention was given to the statistical side: yields on industrial securities began to be quoted from 1947; a few years later saw the publication of cover as well as highs and lows in the prices service; and in 1962 there began the ambitious FT-Actuaries All-Share Index, before very long accepted as the best available measure of portfolio performance. There also emerged in the 1950s three penetrating writers on financial matters. One was Harold Wincott, as unashamed exponent of economic liberalism whose weekly column especially endeared him to the small investor. Another was C. Gordon Tether, whose daily Lombard column on monetary subjects became required reading for central bankers abroad as well as at home. The third was Arthur Winspear, the doyen of modern Lex columnists, whose finest hour came during the famous British

Continued on page 30

THE LANDMARKS

1884 Financial News founded.
1888 Financial Times founded.
1893 FT printed on pink paper
1919 FT bought by the Berry brothers.
1928 Brendan Bracken becomes chairman of the FN.
1929 General news on front page of the FN.
1935 Start of the FN 30-Share Index (later taken over by the FT).
1940 General news on the front page of the FT.
1945 Lord Camrose (formerly Sir William Berry) sells FT to the Financial News Ltd. The two papers become one, taking the name of the higher-circulation Financial Times.
1949 Gordon Newton becomes editor.
1957 FT bought by Pearson.
1958 Death of Bracken.
1959 Paper moves to Bracken House.
1962 Start of the FT-Actuaries All-Share Index.
1966 Stock Exchange prices moved off the back page.
1973 M.H.("Fredy") Fisher becomes editor.
1979 Start of printing in Frankfurt.
1981 Geoffrey Owen becomes editor.
1985 Start of printing in New York.
1987 Start of FT-Actuaries World Indices.

هكذا من الأصل

One hundred years ago discerning motorists welcomed The Financial Times

In 1886, two years before the Financial Times was first published, Karl Benz was granted a patent for his 'Patent-Motor-Wagen' in Mannheim, Germany and started to produce his now famous three wheelers for sale. In the same year Gottlieb Daimler, working independently, introduced his version of the motor carriage. By 1888 Benz cars were being sold in the United Kingdom and no doubt their proud owners welcomed the arrival of the very first "F.T."

Daimler and Benz all but invented the motor car and moved 19th century engineering into the 20th century with inspired dedication. But they weren't great innovators simply because they were first; Daimler and Benz managed to define accurately the basic principles and priorities of automobile engineering as we know them. It was they, for instance, who decided to use a steering wheel instead of the then more familiar nautical tiller. By 1901 they had introduced the honeycomb radiator, the all-steel chassis and timed valves.

The innovative spirit of Gottlieb Daimler and Karl Benz still survives today. Their uncompromising pursuit of engineering perfection, together with dynamic and ergonomic excellence, has produced the benchmarks against which the rest of the industry is judged.

THE 1888 BENZ. THE ONLY ORIGINAL EXAMPLE OF WHICH IS IN THE POSSESSION OF THE SCIENCE MUSEUM IN LONDON.

The Lasting Investment

Today a Mercedes-Benz is not only the car with the most enviable past but one with a most assured future. A Mercedes-Benz is not only built to survive today's environmental hazards better but because of its build quality and forward thinking body design it remains reliable and attractive for considerably longer than cars which are ever-changing, followers of fashion.

As investments many Mercedes-Benz cars have given their owners handsome returns. Legendary cars like the 1936 8-cylinder 540K roadster are amongst the most desirable cars ever sold. Even in 1979 one of them fetched approximately £250,000 – the most ever paid for a car at the time. And on the rare occasion when a 1954 gull-wing 300SL changes hands, the selling price is not far from £100,000.

Coys Complete Collectors' and Investors' Car Value Guide states, "Almost everything Mercedes-Benz have built has collector potential, from the early tricycles to the underrated and undervalued 6.9 engined 450SEL. Some are beyond the price range of any but museums and the super-rich already."

In the current unpredictable economic climate – when even the Financial Times is hard pressed to forecast the future – a Mercedes-Benz is still a good investment. Superior build quality is a characteristic still very much in demand. Continuing testimony to this are the prices of the second-hand Mercedes-Benz cars advertised in the press.

Facing The Future With Confidence

These days a great proportion of Mercedes-Benz research is pre-occupied with the challenge of improved fuel economy through better aerodynamics and greater engine efficiency. With the need to lessen the impact of exhaust emissions on the environment an increasingly important pre-occupation. These important social and technical issues are those in which Mercedes-Benz is again providing the lead. They were the first to develop adjustable engine management systems to suit a variety of different fuels. A three-way catalytic converter system for use with high compression engines and premium lead-free fuel is already operating in the United States and some European countries.

Protecting Your Most Valuable Assets

Safety is another area in which Mercedes-Benz consistently leads the automotive world. Many of today's commonplace safety features were first developed for Mercedes-Benz vehicles.

The principle of the rigid passenger safety cell and energy absorbing front and rear crumple zones was patented as early as 1951. This all-important safety feature is sometimes incorrectly credited to other car manufacturers.

This year the Don Safety Trophy which is widely recognised as Britain's premier road safety award was won by a unique airbag system developed by Mercedes-Benz. The winning entry was chosen by an independent panel of judges and awarded for the most effective advancement of safety in automotive transport in 1987. For almost 25 years this prestigious award has recognised voluntary innovations that in future years have become legal necessities. In the case of a sudden impact the airbag system is activated automatically in microseconds, inflating a cushion between the driver and the steering column. Then within the following seconds the bag deflates itself and returns to the hub of the steering wheel, allowing the driver to evacuate the car.

Not only are Mercedes-Benz safety achievements unrivalled, they are also unending. Improvements are constantly being conceived and designed into the development of future cars and where possible, incorporated into existing models.

The Second Century

Mercedes-Benz have entered their second century facing up to challenges and offering ingenious solutions. The modern world is crowded, yet its population has a right to expect a safer, cleaner environment and less chaotic road conditions. Alternative power sources need to be investigated, as do completely different transport systems to confirm or redefine methods of mobility in the future.

Mercedes-Benz are energetically pursuing such alternatives and have been researching hydrogen-propelled vehicles, alcohol fuels, electrically powered vehicles, rotary engines, multi-fuel gas turbines and the latest ceramic engine technology.

The business of making, selling and servicing motor vehicles is ever changing. Similarly, the technology of newspaper production is developing at an accelerating pace. Undoubtedly the Financial Times will remain at the forefront of its field just as, more than a 100 years after Karl Benz filed the patent that would change the face of our century, Mercedes-Benz maintain the automotive leadership they have always enjoyed.

Engineered Like No Other Car In The World.

BRITISH POLITICS IN THE LATE 19th CENTURY

A period of three distinct phases

A basic regularity has lain behind the cycles in British politics, Roy Jenkins argues.

WHEN THE CENTURY of the Financial Times began, the second Government of Lord Salisbury was a quarter of the way through its six-year term of office. His first Government had been a short-lived affair of eight months, which did little more than give Gladstone a pause for cogitation in opposition, during which his mind made the portentoos leap to Home Rule for Ireland.

A hundred years ago, therefore, Salisbury was only just getting into his somewhat shuffling style, which was nevertheless to carry the country through moet of the oext decade and a half of imperial apogee. His reign was full of paradox, which is not unusual with those who exercise power.

He considerably dieliked being Prime Minister, which he nevertheless was for a total of nearly 14 years, and immersed himself in the work of the Foreign Office (which he combined with being Prime Minister for nearly the whole period). And he regarded most manifestations of imperialism as rather vulgar. His most famoue remark: "Most things don't matter at all, and nothing matters very much" was hardly steeped in the spirit of Sir Henry Newbolt.

Nevertheless, he presided over a remarkable period of Conservative hegemony. There is a common fallacy that the classical period of the British parliamentary eyetem, when every true-born Eoglishman was "either a little Liberal or else a little Conservative," was characterised by regularly alternating party governments. In fact, this was rarely so, except perhaps during a fairly brief Disraeli/Gladstone period.

It is both more accurate and more significant to note that the half a century or ao between 1868 and 1922 was divided into three 18-year periods, the first and the third being predominantly Liberal, *the second still more dominat*ingly Conservative. There were limitations to each of these three generalisations. The 1874-80 Disraeli Government, upon which the political reputation of its Prime Minister is founded, intervened in the first 18 years. The Liberalism of the 1916-22 Coalition Government did not extend far beyond the political proveoance of its leader.

BRITAIN

Peaceful adjustment to change has been accompanied by a continuing loss of political and economic strength and influence. A bid to break this cycle has been mounted in the past 10 years

FINANCIAL TIMES 1888 FT 1988 CENTENARY YEAR

The Conservative period was interrupted by the two and threequarter years (1892-5) in which Gladstone had his last, rather pathetic, fling, Rosebery gave a brilliant 15-month exhibition of how to be a really bad Prime Minister and Asquith, as Home Secretary, first made his reputation.

It was, none the less, the most one party-dominated of the three periods. This is despite the fact that Salisbury started in a weak parliamentary position and was always dependent upon a by no means easy alliance with Liberal Unionists.

In his first short Government, before they had been created, he had simply beeo in a minority. In his aecond, he still lacked an overall Conservative majority, but he was the leader of by far the biggest single party and there were 78 dissentient Liberal MPs who had broken viscerally with Gladstone.

They were led by Joseph Chamberlain and Lord Hartington. But Chamberlain, a politician of flair and originality, although much of it destructive, was a more vigorous and restless stablemate than the easy-going future Duke of Devonshire. There was also much more piquancy about his position. Hartington, the Whig leader, was a natural flaker – away from the right of the Liberal Party.

Chamberlain, on the other hand, bad campaigned as recently as 1885 oo the shocking radicalism of "the unauthorised programme." But Home Rule affronted his nasceot imperialism, and Gladstone, in one of the most expensive acts of condescension in history, affronted his legitimate sense of his own position. The combination sent him skidding across the political spectrum. It was as though Mr Benn had announced in his heyday, six or seven years ago, that he was impelled by Mr Foot's unilateralism to support a Conservative Government.

Deep though the upheaval was, it did not at first send Chamberlain skidding ecross the floor of the House of Commons. Throughout the six years of the Parliament of 1886 he and tha four or five Liberal Unionist privy councillors who supported him sat cheek by jowl with Gladetone and his shadow cabinet on the front opposition bench.

Coortesies were observed, they referred to each other as "my right honourable friend" but Chamberlain's opposition to Gladetone was implacable (whatever hie other political qualities, he was a good hater) and his support of the Salisbury Government correspondingly dependable. He persuaded himself that the Irish issue was so transcendent that it had to be sustained oo everything else as well.

Next time round, after 1895, he (and four other Liberal Unionists) accepted office io the third Salisbury Cabinet. The alliance was thus forged into a party, but it was only another eight years (although after Salisbury's death) that Chamberlain began to split it as effectively as he eplit the Liberal Party in 1886. And such was the force of his destructive genius that by so doing he eignalled the end of the Conservative hegemony as decisively as he had signalled its beginning nearly two decades before.

Nevertheless, it was certainly not back to the status quo ante 1886 as far as the likely future evolution of British politics was concerned. Gladstone's ill-prepared lurch to Home Rule in that year, rushed, as was cruelly said, by "an old man in a hurry," and presented almost as though designed to carry with him as few people as possible, had not merely separated the Liberals from effective power for 20 years. He had also sent them chasing off after an issue which had little central appeal to the English working class at a time when "the condition of the people" was becoming an insistent issue.

The break with Chamberlain meant not merely the loss of votes in the House of Commons as in the country, without which Home Rule could not be implemented. Accompanied by the loss of Sir Charles Dilke, who was destroyed by a messy and mysterious divorce case in the *same year*, it also meant that the Liberals had hobbled their social reform wing.

This, in turn, had an important effect on the independent development of working class politics in the 1890s. There was no Labour Party as such until 1906, but the circumstances in which it was almost bound to develop outside the Liberal Party, even though in temporary alliance with it, stemmed from the events of 1886. Had Dilke and Chamberlain *remained in positions of* power within the Liberal Party, perhaps succeeding to dominance when Gladstone went, the evolution might have been different.

As it was, when the Liberal Party came back to power in 1906, it brought with it the embryo of its foture replacement. As it also had, in Asquith and Lloyd George, two political figures of the very front rank but of incompatible style and temperament, the embryo did not take too long to be born. But the accouchement, even if punctual, ushered in exactly another 18 years of Conservative hegemony – from 1922 to 1940. Throughout much of the first 100 years of the Financial Times, the cycles of British politics evolved with a considerable regularity.

□ *The writer, Lord Jenkins of Hillhead, is Chancellor of the University of Oxford.*

Queen Victoria: her Golden Jubilee was a state triumph, but in 1888 she was absorbed by family tragedy. The Queen-Empress was content to leave politics in the hands of Lord Salisbury.

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BRITAIN IN THE 1980s

Mrs Thatcher's decade

A real change of direction may have been achieved, says Malcolm Rutherford.

THERE ARE two problems in writing about The Thatcher Years in a aurvey that is meant to have a centenary aweep about it. The first is that hardly anyone predicted that they would go on as long as they have. The secood is that they are not finished yet.

Here are two quotations which help illustrate the point. The first is from Mrs Margaret Thatcher speaking as leader of the opposition to the Conservative Party Conference at Blackpool in October 1977.

"If I have one message above all, it is this: I am not prepared to settle for second, third or fourth best for Britain. I do not believe that our decline was inevitable any more than I believe that an accident of nature off our coasts has made our recovery automatic."

The other comes from Mr Peter Shore, a man of some knowledge of foreign and economic affairs as a member of both the Wilson and the Callaghan Cabinets.

"I'm not an over-optimistic person about the British economy, because you can't be optimistic after many years of experience and study, but if you'd asked me if I genuinely thought that the 1980s were going to be the British decade, I would have said 'yes'. And it hasn't been. It's been absolutely terrible."

Mr Shore was speaking on a BBC Radio 4 programme as recently as May 1985.

True, there has been another general electioo since then and Mrs Thatcher has further consolidated her power. But we should not forget that none of that was foreseeo when ehe first took office in 1979 and that the least pessimistic note at the time was that almost any government in the 1980s was likely to do better than its predecessors because of the benefits of North Sea oil.

It was not until her third consecutive victory in June 1987 that there was a widespread realisation across the spectrum of British opinion that the country may have finally changed direction and that the objective of government was no longer to preside over relative economic decline as painlessly as possible, but to lead the recovery.

It may take a fourth Conservative victory - with or without Mrs Thatcher - sometime in the early 1990s to produce a credible alternative government in waiting, sucb has been the disarray among the opposition parties.

Thus the 1980s have been, far and away, Mrs Thatcher's decade. Much has been made of her luck, which she has had in abundance, and although one ehould not dwell on it, it is perhaps worth listing some of the underlying factors that have been in her favour.

Election victory wave from Mrs Thatcher. Today, a lot still remains to be done.

She was fortunate, for a start, in that the then Mr James Callaghan delayed the general election that could have taken place in 1978 until he was forced to go the country in 1979. The "winter of discontent" intervened and gave her a bigger majority than she might otherwise have expected. Moreover, the uprising of the trades unions against the Labour Government's incomes policy made it easier for the Conservatives to implement the reforms of industrial relations that they had promised in their manifesto and in such earlier carefully prepared documents as The Right Approach and The Right Approach to the Economy.

It is also true that the country was at least partially conditioned to set off in new directions. Mr Edward Heath had promised e fresh start when he became Prime Minister in 1970, only to revert to a more familiar course when unemployment went on rising. Emphasis on supply side economics, on the need to control public expenditure and reduce inflation, and even on monetary policy all came in when Mr Denis Healey was the Labour Chancellor of the Exchequer. So the ground was not wholly *unprepared for* the new broom.

Mrs Thatcher had further noticed, as many of the leading politicians of the time had not, that the sale of council houses to their tenants was exceedingly popular. If one had to pin-point the beginning of Tory populism - and of a great deal else that followed, like privatisation - that would be it. The 1979 manifesto said: "We want to work with the grain of human nature." Selling council housee was part of that approach.

The benefits of North Sea oil turned out to be indispensable. Although the Government frequently sought to play them down, saying that they amoonted to little more than five per cent of gross domestic product - and was perhaps seeking to guard against the question: what happens when the oil runs out? - without the North Sea revenues it is almost inconceivable that economic policy would have continued on the course it did.

At the very least, they helped to provide for the rising number of unemployed. They were also a cushion for the restructuring of the economy that gradually took place.

There were some other less tangible benefits that would have been enjoyed perhaps by any British Government of the period. English became the indisputable international language, not because of Britain but because of the United States and the emergence of the widespread use of computers. Being at home in a world language was an advantage not shared by France, West Germany or Japan.

Geography also helped. When it came to global financial markets, the City of London was ideally placed in the time zone between Wall Street and Tokyo. Equally when Britain finally came to terms with membership of the European Community - as it did in the Thatcher years - it was able to maintain close ties with Washingtoo without always unduly offending the continental Europeans. Being an island, with a somewhat different history from the European land mass, again became an asset, and one which was easier to exploit if the economy was healthy.

No doubt by chance the revival of British fortunes coincided with more introspective times in both France and the Federal Republic. The French had domestic problems in being landed with a socialist President and a conservative Prime Mioister. The West Germans seemed almost deliberately to have abandoned their high economic growth rate of the past and to be pausing for thought before deciding wbat to do *next. It became possible* therefore for Britain again to play a role on the international stage that it had some difficulty in keeping up in the previous three decades.

Not least, Mrs Thatcher has been helped at home by the lack of a coherent opposition. The Labour Party was internally torn even before the 1979 general election. When some of its leading members, including Dr David Owen. broke away to form the Social Democratic Party in 1981, it looked as if a fundamental realignment of British politics might be under way. Even leading Tories at the time feared that some of their own members might defect to the new grouping.

Nothing like that happened. The Liberal-SDP Alliance flourished for a while in the opinion polls and by-elections, but went back to the drawing board after the general election last year. In terme of Parliamentary seats, the Labour Party is not yet back to its position of 1979 and has continued to lose ground in the south of England and the Midlands. Indeed the most serious opposition to Mrs Thatcher has tended to come from within her own party, and that she has gradually eliminated, though at the price of putting some of it in the House of Lords.

It was the feebleoess of the oppositioo parties that gave Mrs Thatcher the one benefit that perhaps not even ehe foreaaw: time. No other British Prime Minister this century has had so long at the job. If Attlee had held on in 1951 in order to be able to take advantage of the economic recovery that was already beginning, British political history might have been rather different. If Mr Heath had not called a general election on February 28, 1974, Mrs Thatcher might never have been leader of the Tory Party, let alone Prime Minister.

As it was, she seized the chances when they came. She has made mistakes, of course. It is almost incomprehensible how a former Secretary of State for Education - her only previous Cabinet job - could have taken so many years before making the reform of the education system a priority. She has rushed into some privatisations without guaranteeing that they would lead to greater competition. Long periods of her administration have been bogged down in dreary, and hardly critical, legislation, as with the poll tax now.

Even by her own criteria, set in 1979, a lot remains to be done: the reduction of unemployment, for example. When the results came through on election night 1987, she admitted that the problems of the inner cities and of the north-*south divide, which is in part* more psychological than real, had not yet been tackled. The remarkable fact is that she goes on and on. The supreme test will be whether ehe koows when to stop.

Pre World War II Advertisement.

THE FIRST 100 YEARS

THE HOUSE OF COMMONS

An enduring ability to adapt and absorb

The Commons is still one of the best clubs in town, says Peter Riddell

PARLIAMENT IS perhaps the least changed of all leading British institutions over the past century. For all the far-reaching developments in British society generally, there has been a surprising degree of continuity in the structure and behaviour of the House of Commons.

The picture described by that incomparable parliamentary journalist Benry Lucy in his *Diary of the Salisbury Parliament 1886-92* is familiar to any modern observer. The confrontation across the chamber, the occasional dramatic intervention, complaints about unruly behaviour (worse then than now), the procedures for considering business (themselves partly the creation of the early 1880s), and the power of the whips in determining the final votes are all remarkably similar.

In short, what has made the House of Commons distinctive from, say, the US Congress or many Continental legislatures was already established in the late 1880s.

The power and influence of the House of Lords has, however, declined, in response both to the widening of the franchise and to statutory limitations in 1911 and 1949. Yet, curiously, the Lords, strengthened since 1958 by life peers in addition to the hereditary element, has enjoyed s revival in the 1980s as a counterweight to radical Thatcherism, and as a result of the regular televising of its proceedings.

The executive has certainly gained power and wide-ranging responsibilities over wide areas of economic and social life over the century. Yet, that has altered its relationship to the legislature less than is commonly supposed. The Government was already in a powerful position in the 1880s, with the Commons mainly acting as a check and a spoltlight rather than as an originator of decisions.

By the late 1880s the Commons had largely lost the actual, as opposed to formal, power to decide which group could hold office. The major extension of the franchise in 1868 and the associated firming of party lines and discipline ended the 20-year period in which prime ministers had to form coalitions from several fluid groups in the Commons. The power to approve or dismiss governments then passed to the electorate, unless, as in 1885-86, parties themselves split, forcing a succession of elections.

Party was all in 1888, even though then, as now, there was a multi-party position. There were not only Lord Salisbury's Conservatives and Gladstone's Liberals, but also the Liberal Unionists under Lord Hartington and Joseph Chamberlain, who had split from the Liberals over Ireland in 1886, and the separate Irish members, the Parnellites.

Within these party ties the central role of the Commons as the main forum of political debate - for holding ministers accountable and for making and breaking careers - has remained, largely unchanged.

Henry Lucy points to the success of Arthur Balfour in the Commons in the 1886-92 parliament in dealing with the fractious Irish members which made his reputation and helped to ensure that he became Salisbury's successor in 1902.

Lucy also describes an intervention by Gladstone which held the House enthralled: "Last week he delivered four great speeches, any one of which would hsve established a Parliamentary fame. But it seemed that since the House last saw him he had renewed his youth, like the eagle. Even his voice, which sometimes failed him, had regained its mellowness.

"He spoke, as he often does in chance debates on a Friday or Tuesday night, in a conversational tone, free from all political acerbity – a speech luminous with knowledge, profound in wisdom, touched here and there with flash of kindly humour. It was like Priam sitting at the Gate talking in the mellow evening sunlight to the young men around him." Gladstone, then in his 79th year, still had his fourth premiership four years away.

Similarly, MPs now come into the chamber to hear speeches by Mr Edward Heath, Mr Michael Heseltine and Dr David Owen (none of them anywhere near Gladstone's class as an orator), or before they left the Commons last June, Mr Enoch Powell, Mr Roy (now Lord) Jenkins, and Sir James (now Lord) Callaghan.

Parliament has lost its place as the dominant forum for such discussion. Apart from the dramatic moments or speeches the chamber is said to be less well-attended than even 20 or 30 years ago, partly because of the counter-attraction of numerous cross-party select committees monitoring the affairs of government departments. Such commitees played an important part in parliament in the 19th century, but there were fewer of them, and the current structure of 14 such committees was only created in 1979.

The debates of the Commons receive less detailed coverage in the press than in the past, though the radio broadcasting of its proceedings over the last decade means that many more people are directly aware of the noisier incidents like prime minister's questions.

Back in 1888, only a little more than a quarter of the adult population had the vote. Not only did no women have the vote until 1918, but less than 60 per cent of adult men were eligible. While the 1884-5 changes had extended the male franchise, there were still lengthy residence and other qualifications which excluded many unskilled manual workers.

The main change occurred in 1918, when all men, and women over 30, were given the vote, and women were allowed to become MPs - thus creating the opportunity for Mrs Margaret Thatcher to become the longest-serving Prime Minister in the 20th century. All women over 21 were given the vote in 1928, the multiple vote and the six months' residence qualification were abolished in 1948 and the voting age was lowered to 18 in 1969.

These changes accelerated both the disappearance of the independent member dependent on local patronage or support and the sppearance of mass party organisations with national networks of candidates. This trend was already well-established by 1888, though the limits on party competition were shown by the existence of a large number of unopposed elections. These totalled over 100 even in the bitterly fought general election of 1906, and amounted to 40 in 1935, before disappearing after the 1951 general election.

The extension of the franchise permitted the creation, and growth of the Labour Party. In 1888, Keir Hardie was only an unsuccessful parliamentary candiate. He was not elected to the Commons until 1892, before losing again three years later. The Labour Representation Committee was not founded until 1900, and the Labour Party, so named after 1906, did not adopt a nationwide organisation until 1918.

The rise of Labour, the associated decline of the Liberals as a major third force after the 1920s, led to a change in the social composition of the Commons. In 1888, apart from the Irish members, the House was predominantly upper-class and middle-class, with a large number of peers' sons and a sizeable respresentation from the land interest, business and the professions. Not least of the deterrents to working-class members was that MPs were unpaid until after 1911, when they started to receive £400 a year.

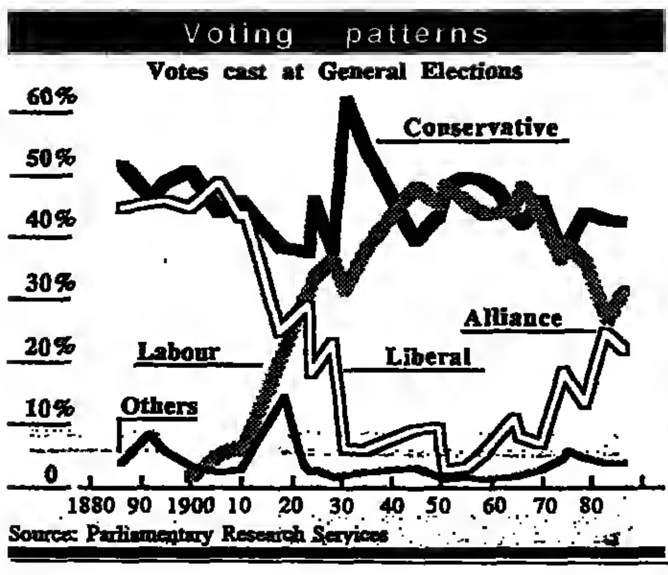
A number of Liberal, as well Labour, members from lower-middle class and working-class backgrounds entered the Commons in the 1890s and 1900s. Initially, Labour was a predominantly working-class party, but, paradoxically, the social base of the Commons has narrowed since the 1940s following the large influx of middle-class professionals in Labour's landslide victory of 1945. For instance, the proportion of Labour MPs who were rank and file workers fell from an average of 72 per cent in the 1918-35 period to just over 40 per cent in 1945 and subsequent elections. By contrast, the number of Labour MPs with a professional backround rose from 24 to over 45 per cent.

On the Conservative side, there has been a slight decline in the number of upper-class members, and a growth in the number with a professional or business backgroumd. Lord Salisbury, the aristocrat, has been replaced by Mr Edward Heath and Mrs Thatcher, with provincial lower-middle class backgrounds, yet a direct descendant of the Victorian Prime Minister was an MP until last June and the present Cabinet contains three peers' sons.

Yet, while these social changes and the extension of the franchise have meant that political leaders turn more outwards to the electorate, the basic character of Parliament has altered less than might have been expected. Perhaps that just shows that the Commons is itself a successful conservative institution, adapting and absorbing newcomers. It is still one of the best clubs in town, but no longer an exclusively gentleman's club.

Voting patterns

Votes cast at General Elections



Source: Parliamentary Research Services

Winston Churchill at Westminster in 1939.

Lloyd George in 1915

The Marquis of Salisbury

William Gladstone

Lord Asquith

Stanley Baldwin

□ One hundred years ago, Lord Salisbury was Britain's somewhat reluctant Prime Minister. His most famous remark was that "most things don't matter at all, and nothing matters very much." An astute aristocrat, he despised the sensationalism of popular journalism and the tricks of politicians.

□ Pictured, below: victory smiles from Mr and Mrs Clement Attlee and friends, outside London's Transport House after the famous 1945 General Election triumph

THE WINTER OF DISCONTENT

Turning point in UK industrial relations

The wave of strikes across Britain, a decade ago, has cast a long shadow, says **Philip Bassett**

WHEN, EARLIER THIS year, Mrs Margaret Thatcher became the longest-serving British Prime Minister this century, she turned as an indicator of change to her favourite touchstone - the transformation of British industrial relations from its perceived strike-proneness to now relative industrial harmony.

"They used, when I first came in, to talk about us in terms of the British disease. Now they talk about us and say, 'Look, Britain has got the cure. Come to Britain to see how Britain has done it.' That is an enormous turn-round."

Picking turning-points, even in retrospect, is a chancy business, no less in the tangled web of British industrial relations than in any other social aspect. Many have claims - the 1926 General Strike, the early-1940s move by the unions into corporatism, the Donovan report of 1968, the 1974 or 1984-85 miners' strikes - but for the sheer breadth of impact on British life and politics in recent years, the events of the winter of 1978-79 stand out.

Not that they did so to such an extent at the time. To a reporter covering the strikes of that time, probably no less than those more centrally connected with them, it was far from obvious how far-reaching would be the impact of each new wave of employees going on strike, doubling and redoubling discomfort and anxiety to the public so that the newspapers, reaching - unusually - for their Shakespeare dubbed it the 'winter of discontent'.

The sheer numbera of employees taking part were enormous. By its end, almost 20 per cent of the British workforce had taken action, from oil-tanker drivers to hospital porters, from journalists to lorry drivers, from train crews to gravediggers. Though the number of strikes in 1978 and 1979 actually fell from previous years, the number of working days lost through stoppages soared to more than 29m - the highest since the General Strike.

Oddly, this huge social convulsion remains peculiarly under-studied. Now, at a time when industrial relations scrutiny has declined, no large-scale dispute goes by without a book-length post-mortem: the numbers generated by the 1984-85 miners' strike, for instance, run currently to well over 30. Yet no such account has appeared of the considerably more significant events of the winter of discontent.

Partly, that was a matter of timing. Events ran on: to the election of May 1979, and in industrial relations to the national steel strike on 1980 - the first of the string of large-scale public sector stoppages which have been hurled, almost completely ineffectively, at Mrs Thatcher's government.

Partly, though, it was because what the strikes meant took time - at least until the *next* election in 1983 - to emerge fully: the wholesale change in economic policy, and from that in social attitudes, towards individualism, entrepreneurialism, and conservatism; the swift removal of the unions not just from the near-dominant public role they had both enjoyed and exploited in the 1970s, but virtually from the political stage entirely; the ending of what some - even some in and close to the Labour Party - have suggested may be the last Labour government.

After years of membership decline, of greatly-reduced importance, of virtual marginalisation, how far do the unions now accept responsibility for all that followed? Sid Weighell, the former railwaymen's leader, was hissed and jeered when he told an early 1980s TUC Congress that it was their own fault Mrs Thatcher was now in power. Lord Callaghan, then Prime Minister as Jim Callaghan, is unequivocal in blaming the unions. New union leaders such as John Edmonds of the GMB general union believe unions had become arrogant, and over-reached themselves.

London's Petticoat Lane, piled with uncollected rubbish during the strikes of 1978-79. The political impact of these scenes was far-reaching.

But even now, a decade on, some union leaders still agree with the view of Ken Gill, general secretary of the white-collar Tass union, at the 1978 TUC Congress: "When a Labour government disagrees with the trade union movement, then it is almost certain than the Government is wrong."

A whole tapestry of events led to the strikes of 1978-79. Crucial to them, as Sir Kenneth Stowe, then Callaghan's principal private secretary, put it at a recent ground-breaking seminar organised by the Institute of Contemporary British History, were the massive programme of public spending cuts necessary after the Labour government called in the IMF in 1976, and Labour's political instability in the Commons, when it was governing in 1978 without a majority. But a number of more immediate events were vital.

The key was the rejection by the 1977 biennial conference of the TGWU transport union of the impassioned pleas of its then-leader, Jack Jones, for further support for the social contract on pay, prices and legislation between Labour and the unions.

Though it seems barely credible now in the late 1980s that a policy decision at a trade union conference could have that kind of impact, once the TGWU had voted for a return to free collective bargaining, the Labour government was living on borrowed time. Labour then failed to win agreement from the TUC on pay, and instead decided to go for another year of pay restraint, following previous years' 5 and 10 per cent ceilings with a further year of 5 per cent as a limit.

Lord Ennals, then as David Ennals health aervices secretary, says now that the figure was set solely by Callaghan and Denis Healey, then Chancellor. William Rodgers, then transport secretary, says a number of Cabinet members felt the figure was ridiculously low. Jack Jones says there was no discussion with the uniona about it. Lord Murray, then TUC general secretary, says the figure was Treasury-inspired, and came right out of the blue.

Even so, it might still not have mattered. Labour's parliamentary instability meant it unlikely Callaghan would be able to hang on in office until his last date of 1979 most thought an election likely in autumn 1978. "To those of us around him," says Lord Donoghue, then Callaghan's chief policy adviser at No 10, "the 5 per cent made sense while we thought there might be an election."

In a decision he now - unsurprisingly - regrets, Callaghan stunned everyone, his Cabinet colleagues included, by not calling an election. As Sir Patrick Nairne, then permanent secretary at the DHSS, saya: "After the election was not called, one began to take the 5 per cent seriously."

So did the unions - but as a target to be beaten. Driven first by the private sector, by lengthy disputes, and subsequently large settlements, at Ford and British Oxygen, and in the road haulage and oil transport industries, the Government - first its pay policy, then through that its claimed special relationship with the unions, and, with that gone, its very existence - came under threat.

Sir Clive Rose, then heading the Cabinet Office's Civil Contingencies Unit emergency planning group, says the tanker drivers posed the need for a state of emergency. Callaghan wanted one, but was vetoed by the Cabinet. Action by the CCU, in concert with TGWU leaders, kept the country going, but couldn't concern itself with the Government and its political problems.

Labour was classically torn between its responsibilities to govern, and its own constituency, as Sir Peter Lazarus, then a senior Department of Transport civil servant, told the ICBH seminar: "I was convinced that ministers wanted to look as though they were doing something, but when it came to it there were too many ministers who had too close relations with the unions."

But it was the action in the public sector - mounds of rotting rubbish in the streets, picket lines stopping oxygen supplies to dying patients, the dead not being buried - which finished Labour off and made glorious summer for the Conservatives seem inevitable.

Douglas Smith, now chairman of the conciliation service Acas and then in the Department of Employment, believes that the real impact of the public service strikes was over-stated at the time: many more bodies were left unburied in a barely reported dispute in Liverpool last year than in the winter of discontent.

But the impact - especially on television - of the action's effect was enormous, matched only by the increases eventually awarded by the Clegg pay commission set up by Labour, which were scathingly honoured by Mrs Thatcher and followed by the commission's swift scrapping.

Buoyed up by a tidal wave of public disgust with what was widely seen as the excesses of trade union power, Mrs Thatcher was swept into office, and Labour - and the unions - into the years of bleak darkness in which they now still huddle.

She went on to transform the unions in what many regard as

TRANSPORT

Passengers' high-speed future

Jet travel may one day look as old-fashioned as transatlantic liners, says **Kevin Brown**

REMEMBER THE British Transport Commission? Not many people do, yet it was one of the most spectacular failures of the post-war era.

Set up in 1947 by the first majority Labour Government, the Commission embraced virtually every field of transport, covering a workforce of more than 1m people

It controlled the railways, all canals and waterways, long distance road haulage, much coastal shipping and ferries, the London Underground, and most bus and coach services.

Its brief was to make the most efficient use of national transport resources by eliminating wasteful competition and integrating all the major undertakings to prevent wasteful competition.

The Commission lasted 15 years - it was abolished by a Conservative Government in 1962 - and it failed principally because the planners failed to foresee the post-war explosion in the use of private cars.

When the Commission was established there were just 3.5m motor vehicles in Great Britain, and the number of passengers on public rail and bus services was at its highest for years because of shift work and petrol rationing during the war.

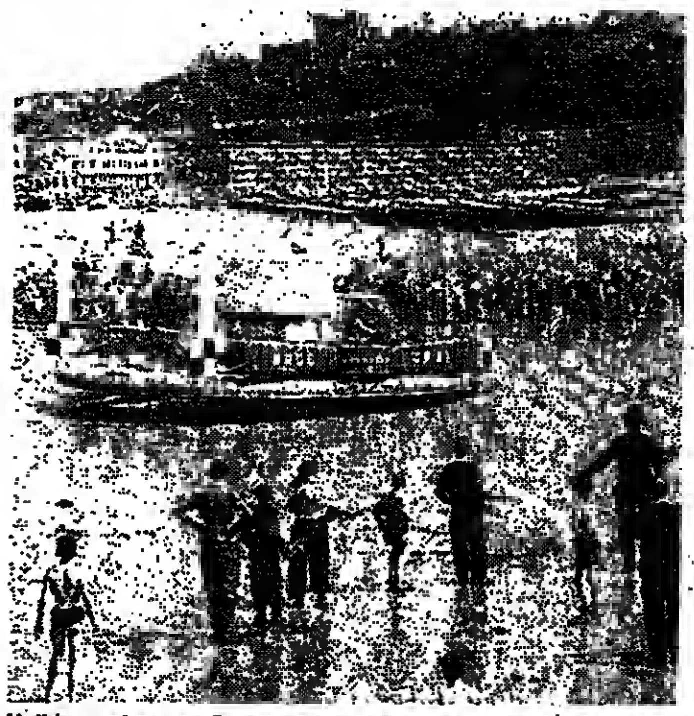
By 1962, when the Commission was abolished, there were 10.5m vehicles, and both rail and bus services were in serious decline as passengers turned increasingly to private cars and motorcycles.

Many of the component parts of the Commission have since been sold to the private sector - notably the National Freight Corporation, and most of the National Bus Company, and large parts of British Rail's holdings, such as its ferries and ports.

The railway itself remains in the public sector, however, much as forecast by the FT as long ago as March 1940, when keen eyed readers would have spotted in the Investor's Note Book column the prediction that wartime control was unlikely ever to be relaxed.

The unidentified but perceptive author noted that the 1914-18 war had led to the creation of the existing Big Four railways, and forecast:" the 1939-X war (may) result in the formation of a Big One, possibly under the title of the National Transport Board."

Nationalisation was opposed by both the industry and the Financial Times, which attacked the "Socialist fiction that the railways are inefficient" and deplored the Government's failure to calculate the real costs of nationalisatinn.



Holiday-makers at Dover beach, 29 years ago, marvel as the SR.N1 hovercraft arrives from Calais after its first Channel crossing. The historic trip, on July 25, 1959, was made by Christopher Cockerell (later, Sir) and Commander Richard Lamb.

Nationalisation went ahead, of course, but profits were still being made on dealings in railway shares right up to New Year's Day 1948, when they were converted into British Transport Stocks on previously unannounced terms.

In a front page article the FT reported on the last day of official dealing:" At 2.55pm quite a crowd surrounded Home Railway Dealers in the Stock Exchange to celebrate the exit of this market, which is at least a century old.

"Auld Lang Syne was sung and speeches were called for, but no response was forthcoming to the demand. In fact, dealers were far too busy to make much of the occasion, and retired to their offices to continue dealings for some time after hours.

In the event, nationalisation proved no panacea for the railway's problems, and by 1961 Dr Richard Beeching was working on the plan carrying his name which was to reduce the network by a third.

At the same time, the UK was belatedly trying to bring the national road network up to the level achieved by its Continental rivals, particularly in West Germany, France and Italy.

A roads programme was announced in 1955 in an attempt to redress the damage caused by almost total neglect of the system aince the outbreak of war in 1939. In the event, it was not until 1987 that the Roads Minister was able to announce that the motorway programme was "virtually complete."

The real post-war excitement, however, was in international transport services, particularly the switch from sea to air on the North Atlantic.

Tourist class passenger flights began in May 1962, when a BOAC Constellation aircraft took off from London for New York carrying 68 passengers at a discount of 41 per cent on the normal first class fare.

When the flights started, BOAC had bookings for 17,000 passengers up to September, and as services increased other airlines reported increases of up to 500 per cent over the number of passengers when first class flights only were available.

May 1952 was also notable for the inauguration of the world's first jet airliner service - a weekly BOAC Comet from London to Johannesburg.

Clearly, a new cra had arrived. But it was a long time before the shipping companies recognised that their markets were being poached.

Large numbers of pre-war passenger liners were still plying the oceans, from Europe to North America, Africa, India and Australia, and there were plenty of new onea on the drawing boards in the early 1950s.

In 1953 alone, the US liner United States and the Swedish Kungsholm entered service, while Cunard had two ships in British yards and Canadian Pacific one. More were planned, the FT reported in August.

The article, by the editor of Shipping World, reflected the prevailing orthodoxy by suggeating that there would always be people who would prefer to travel by sea. Most of the new ships finished up in the cruise market, or carrying subsidised emigrants to Australia.

The two decades after the war were a period of rapid development in transport technology - notably in the production of diesel and electric trains to replace the romantic steam locomotives of earlier years.

Other developments were less immediately successful - nuclear powered merchant ships turned out to be too expensive for viable operation, and monorails failed to fire the bureaucratic or popular imagination despite favourable Government evaluation in 1958.

The hovercraft, invented by Sir Christopher Cockerell in 1953, eventually went into service on the English Channel, where several remain in operation, but failed to achieve the huge export sales and rapid development which was expected of it.

The 1960s brought the development of Concorde, the Anglo-French supersonic airliner developed jointly by the British Aircraft Corporation and Aerospatiale.

The aircraft was a technical success, albeit at huge cost to the taxpayers of the two countries, but no export sales were achieved, only 16 aircraft went into service, and research and development costs were written off by the two governments.

The 1990s will bring the Channel Tunnel, finally given the go-ahead after an earlier false start was abandoned in 1974, and high speed rail services between London, Paris, Brussels and Cologne.

The longer-term future is anyone's guess. But the British Hotol project and the National Aerospace Plane, being developed by the US Government, point the way towards ultra-fast passenger services for the next century which could make jet travel look as old fashioned as the transatlantic liners it replaced.

INDUSTRY IN BRITAIN

A story of lost opportunities

British industry's weaknesses in the post-war period were well-known but were not acted upon, says Geoffrey Owen

THE STORY of British industry after the Second World War is one of a persistent failure to adjust - to the loss of protected Commoowealth markets, to growing competition from Japan and Germany on one hand and the newly industrialised countries on the other, and above all to the need to replace outdated practices and attitudes in product development, manufacture and marketing.

With a few exceptions in such sectors as pharmaceuticals, it is a story of lost opportunities. Management weakness, compouoded by errors of government policy, caused strong positions in several established industries, such as motor vehicles, to wither away. Promising attempts to build world leadership in newer areas like electronics largely failed for lack of vision, resolve and follow-through. As this survey is written, there are signs of renewed confidence, of a determination to rebuild. But the damage inflicted during earlier decades was profound.

Was this the inevitable result of a hundred years of gradual decline? No doubt there is force in the numerous general explanations for Britain's deteriorating position in world markets - the class structure, the lack of attention to technical education, the anti-entrepreneurial bias in universities, the low status of engineers and so on. After the high point of the industrial revolution in the 19th century the UK certainly slipped back in the international race. But if attention is focussed on the period immediately before the Second World War, it is not obvious that British industrial performance was outstandingly bad by world standards.

Newer industries like chemicals, motor vehicles and electrical engineering grew strongly in the 1930s. Powerful companies had been founded by able entrepreneurs, like Morris Motors, or by merger, like Imperial Chemical Industries and Unilever. Older industries like steel and textiles fared less well: attempted rationalisation schemes did little to solve underlying structural problems.

Yet, taken overall, British industry on the eve of the war did not show obvious symptoms of the wasting disease - or, as some would put it, the urge to self-destruction - which became apparent after the war. Performance was, at the very least, respectable.

Some historians, notably Correlli Barnett, have drawn attention to the deep-seated weaknesses - in quality of management, in labour relations, in overall levels of productivity - which were obscured by the apparent achievements of British industry during the war. But his analysis shows the size of the international challenge that would face British industry after the war, not that the challenge could not be met.

What was needed, when the war ended, was a drive to modernise, to apply the best available technology and management methods throughout industry. Instead, most manufacturers found themselves in a seller's market in which the urgent requirement was not better design or lower cost, but more production. The motor industry, for example, briefly became the world's largest exporter of cars in the immediate post-war period, even though its models were mostly outdated and unsuited to overseas markets. As the home market expanded rapidly in the early 1950s the incentive to export was reduced.

The weaknesses of British industry compared with its overseas rivals were generally known, but not acted upon. In steel, for instance, the report of the Anglo-American Productivity Team in 1952 showed that if all the existing steelworks were expanded or even retained it would not be possible to reach the minimum size for efficient operation. If the criterion for government and company policy had been international competitiveness, the shape of the steel industry would have been radically altered in the 1950s and 1960s, with new investment concentrated on the best locations.

Conservatism and complacency among the producers, reinforced by bad government decisions, led to mis-directed investment; the tendency to put social and political criteria ahead of efficiency was symbolised by Mr Harold Macmillan's decision in 1959 to split the fourth strip mill between Scotland and south Wales - a decision whose consequences persist to this day in the long-running argument over the future of the Ravenscraig works in Scotland.

Harold Macmillan (left): split steel investment between Wales and Scotland. Sir Jules Thorn: he created the strongest British TV set manufacturer.

In the 1930s, newer industries, including the vehicle sector, grew strongly as powerful companies, such as Morris Motors, were founded by able entrepreneurs. Pictured here is the Morris Minor production line, over 30 years ago. Today, the UK motor industry is recovering from a decline which began in the early 1970s.

In theory, the nationalisation of steel (for the second time) in 1967 could have paved the way for restructuring and modernising the industry. In practice, as with most other forms of government intervention during the 1960s and 1970s, the effect of state ownership was to delay rather than to accelerate the changes that were needed. Neither the Labour Governmment's over-ambitious National Plan of 1965 nor its detailed intervention in industry through the Industrial Reorganisation Corporation (set up in 1966) produced a lasting improvement in competitiveness.

True, some of the IRC-sponsored mergers were successful, notably those in the electrical engineering industry involving GEC, AEI and English Electric. But the conditions which led to success in that case - a determined management with a clear plan for reducing costs and eliminating over-capacity - did not exist in the much more difficult case of the motor industry.

Of all the consequences of the IRC-supported British Leyland merger, the decline of the Leyland and AEC heavy truck business was perhaps the most disappointing, since this was a field, much more than in high-volume cars, where the UK had particular strengths.

The role of government and its agencies was generally unhelpful during this period. Quite apart from the stop-go characteristics of macro-economic policy (which had a harmful effect on consumer product industries like domestic appliances, TV sets and cars), purchasing policies by nationalised industries were too often guided by narrow perceptions of distinctively British needs, with insufficient regard for overseas customers.

The choice of advanced gas cooled reactors by the Central Electricity Generating Board in 1965, the aircraft purchasing decisions of the state airlines, the Post Office's early forays into electronic telephone exchanges - all these had bad effects on the ability of their suppliers to compete in world markets; they stemmed in part from the over-centralisation of technical decisions.

It would be absurd to assign all the blame for Britain's poor industrial performance to the errors, inconsistency and unpredictability of government policy. Yet it is interesting to note that in one sector where the government's role has generally been both supportive and consistent the UK's performance has been good. This is the pharmaceutical industry. It is a sector which has benefited from some factors which were notably absent in much of the rest of British industry - a close rapport between academic science and industrial research laboratories, a rapidly growing home market (through the National Health Service) and a production process that did not rely on large concentrations of unskilled or semi-skilled workers and so was less vulnerable to industrial relations conflict.

The fact that US-owned drug companies were invited by the Government to establish laboratories and factories in the UK in the 1950s exposed the British producers to American management methods and helped to enhance the vitality of the sector. The recent success of a company like Glaxo, now one of the world's leading drug companies, reflects at least in part the favourable eovironment which the manufacturers have enjoyed since the war.

Although the industry has come under attack for allegedly high profits, over-aggressive sales methods and occasional lapses of safety, successive governments have recognised its value to the economy and have been reluctant to do anything which would seriously damage it.

Some critics might argue that excessive emphasis on the shortcomings of government is simply a cloak for entrepreneurial failure, that British management, if it had been good enough, could have risen above the problems of the domestic economy and established world-beating businesses. Such critics might point to the example of foreign companies, such as IBM, which have invested heavily in product development and in manufacture within the UK and have achieved productivity levels that are competitive by world standards.

Yet while it is true that the quality of management in some foreign-owned companies appears to have been higher than in their British counterparts, the record of such subsidiaries is patchy at best. The disappointing performance of the UK operations of General Motors, once regarded as the most powerful of all US corporations, shows that American management methods did not provide an unfailing recipe for success in the British environment.

As for home-grown entrepreneurs, there have been some powerful individuals who have built or revived substantial UK-based business empires. Yet the nomber of those empires which rank today among the world's leaders in their fields is disappointingly small. Too many success stories proved short-lived. Dr Daniel McDonald's BSR dominated the world market for record-changers, yet after the departure of the founder failed to adapt to changing technologies and consumer tastes. Sir Jules Thorn created the strongest British TV set manufacturer, yet neither he nor his successors were able to give the group the international dimension that was needed.

Although there have always been a good many companies which specialise successfully in niches of the world market, it is hard to resist the impression of a certain entrepreneurial caution, a lack of adventurousness and ambition which was influenced by the uncertain economic climate in the UK. Perhaps if Britain's entry into the Common Market had occurred in the early 1960s rather than the 1970s, British industry would have been caught up in the faster growth of the earlier period. As it was, entry in 1973 coincided with the end of the post-war boom.

Slower growth added to the difficulties which most UK companies faced in reorientating their products and their management attitudes towards the enlarged European market. Initial disappointments - often resulting from ill-judged takeovers - led to a degree of disenchantment with Continental markets. Hence EC entry was not the fillip that its promoters had expected.

Will the 1980s mark a turning point? Will the 1990s, which if all goes according to plan will bring the completion of a barrier-free European market, see the resurgence of British industry on the world stage? The economic and political climate is more favourable for business. There is less complacency in board rooms and a far greater determination on the part of leading British companies to judge themselves by the highest international standards. The next generation of entrepreneurs, perhaps with a larger vision of what can be achieved than their predecessors, is now awaited.

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The Nissan car plant at Washington in the north east of England. Some sectors of British industry have become increasingly dependent on infusions of Japanese technology

THE RESTRUCTURING OF BRITISH INDUSTRY

Big slimdown raises questions of scale

Massive changes have taken place, but important weaknesses remain, Nick Garnett believes.

IS BRITAIN edging, stumbling or at least crawling towards a new and positive role as a manufacturing power? After ten years of change that has reshaped British industry at a speed rarely experienced before, this is now a question central to the health of the UK economy.

The sheer scale and immediacy of the metamorphosis is such that the answer will not be really known for many years. What is obvious is that the period largely coinciding with the three Governments of Mrs Margaret Thatcher has transformed much of the character of British manufacturing, leaving it with a slimmer but smaller physique.

Parts are undoubtedly healthy and strong, but these years have also exposed persistent frailties in industry's bone structure that remain a severe drag on performance and on Britain's standing as a leading international maker and developer of manufactured goods.

The present structure and atate of health of industry is in large part the result of three distinct phases of change since 1979. The first phase lasted to around 1983. It was one of unremitting pain as manufacturers laboured under the burdens of an overvalued pound, high interest rates, shrivelling recession-hit demand, and the self-inflicted handicap of outdated plant, tired management and poor labour practices.

The second period, which stretched into 1985 was one of gradual stability among the survivors of the previous period, improving profits and cash balances, and the emergence of many companies from their stress-induced cocoons.

The third phase, in which the UK etill finds itself, has been characterised by two features. One is a rapid upsurge in profits and, more recently, in output as companies reap the benefits of vastly improvad shopfloor relations, cost-cutting and restructuring. The other is a fundamental reshuffling in the ownership structure of scores of manufactnring sectors.

Many of these sectors are hardly recognisable from what they were in the mid-1980s, let alone in the 70s. Much of that restructuring, which has tended to reinforce the position of non-British companies has been aggressive and beneficial. Some of it though has been nervous and defensive, with companies unsure of where they are or want to be, and groping for a firmer foothold in increasingly open but crowded markets.

It is becoming difficult for the man in the street to recall the sheer scale of factory closures, wholesale redundancies and company collapses tbat hit large swathes of UK manufacturing during the end of the 1970 and the early 1980s.

In the vehicle industry, BL – now the Rover Group – shut 13 plants under the management for survival strategy of Michael Edwardes. One of those plants, Canley, in Coventry, was Europe's biggest car manufacturing site in the 1960s. MG and Triumph disappeared as sports car marques. Total car output in Britain tumbled to a low point of 890,000 in 1982 from the peak ten years earlier of 1.9m.

BL's Leyland subsidiary struggled to remain a truck and bus manufacturer while its farm tractor business, the last indigenously owned volume producer, dieappeared. The image of motor manufacturer, Rolls-Royce was seriously dented as sales plummeted. Some component manufacturers, like Rubery-Owen shrank almost out of sight.

During the peak of site closures in the textile industry immediately after the turn of the decade, 200 mills closed in just one 12-month period.

A mass of production sites in mechanical engineering went under, and a number of once great but then floundering companles broke apsrt, among them Alfred Herbert in machine tools and Stone Platt in textile machinery.

The steel industry went through a trauma of massive proportions, too. During the late 1970s and early 1980s when the British Steel Corporation was running up losses of more than a £1bn a year, four large private sector steel makers shut down, scores of subsidiary sites closed and BSC scrapped more than a hundred pieces of production plant. Some of this was the result of a successful and planned rationalisation of the industry.

The social consequences, howevar, will remain for at lesst another generation in towns like Consett and Shotton. One of the most depressing stories of difficulty and retreat by UK manufacturers was the electronics industry. The first Thatcher Government latched on to electronlcs as a main building block for Britain's future. In the over-simple vernacular of the time, it was a 'sunrise' industry.

The Governmant took an interventioniet role, moving almost immediately towards the liberalisation of telecommunications and privatising Cable and Wireless in 1981. Clive Sinclair, inventor and populariser of compoters, became ona of Mrs Thatcher's favourite businessmen.

But the problems came thick and fast. ICL was saved from the brink of collapse only with a £200m Government loan guarantee. British televlelon manufacturers stesdlly retreated. GEC and Rank held on in this field with joint ventures with Japanese companies, but eventually withdrew completely along with Granads. Thorn EMI, once with pretensions to being a big integrated electronics company began a long divestment which has now taken it completely out of conеumsr electronics, its television interests now merged with those of Thomson of France.

Weighed down by an unsatisfactory spilt in development and manufscturing between GEC and Plessey, the earlier much-vaunted System X digital telephone exchange system crawled rather than leapt into the 1980s. Clive Sinclair himself eventually had to sell off his main brand name.

A few induetries, such as pharmaceuticals and aerospace - where the last major company collapse, that of Handley Page, was in the 1960s - escaped these traumas. But elsewhere the tale was one of almost unllmited bleakness. Three of the biggest toy makers, Airfix, Lesney and Dunbee-Combex-Marx went into recelvership. Even the mighty Imperial Chemical Industries reported a one quarter loss in 1980 and cut its dividend on the back of sllding world demand for petrochemicals.

All this is a far cry from the kind of industrial news whlch has filled national newspapers in the past two years, as profits and production have moved on to a steep upward curve. Car output was up at 1.15m last year and rising. Glaxo has the world's fastest selling drug six years after launch. Many other sectors from textiles to machine building witnessed substantial increases in sales. Net gearing, the proportion of debt to equity, is eteeply down right acrose manufacturing industry. All this has been accompanied by a huge acquisition spree in North America.

Much of the increase in output, however, is coming from production sites owned by foreign companies – US, French and Japanese in the car-building sector, and American and Japanese groups in computers and other electronic areas.

At the same time the well-documented problems in many British companles of inadequate training, low investment, scarce research and development and a lot of tired and inadequate manufacturing plant that falls below the standards even of the 1950s persistently remain. A reshuffling of the ownership pack among British industrial companies that is little short of dramatic appears to be producing a more coherent shape, but it also indicates that not only is industry in a state of flux, it is also struggling with a number of deep seated weaknesses.

The restructuring in the past few years has taken many forms. Some of it has resulted from acquieltlons by one or more dominant companies. In textiles, for example the eventual formation in 1986 of Coats Viyella followed the absorption and merger of many businesses, including Carrington Viyella, Vantona and Coats Patons to create a company larger than Courtaulds.

A number of sectors have reverted back to the kind of shape they had at an earlier date. The partial dismantling of British Shipbuilders has thus placed the warship building yards of Swan Hunter, Cammell Laird, Vickers and Vosper back outside state ownership. In machine tools, more than ten companies have changed hands during the past two years as many of the general engineering groups that got into the business in the 1950s and 1960s have retreated, selling subsidiaries to other smaller companies and to managements eager to run the business concerned themselves.

Some sectors have changed shape because a few large companies decided they could not make a go of it or were too small to be a serious player. This has been a feature of the much-reduced white goods industry where TI has disposed of all its businesses, the main ones to GEC's Hotpoint, and Thorn its interests to Electrolux of Sweden.

In two sectors, vehicles and electronics, a stong streak of defensiveness has characterised change of fundamental proportions. Lotus has sought the security of General Motors while Aston Martin and AC have fallen under the wing of Ford. Panther has gone to the South Korean industrial conglomerate, Ssangyong. The Leyland truck and bus operation has been put into a joint company with Daf of the Netherlands, in which the Dutch company holds a 60 per cent stake, while Bedford has been broken up, the vans business going to a joint company between GM and Isuzu of Japan, the trucks business to David Brown's construction equipment based mini-empire.

Rover, no longer with a stand-alone model programme, is becoming increasingly dependent on Honda. To complete the changes, and to underscore the increasing influence of the Japanese, Nissan says that within five years it will be producing cars at a volume little short of a half Rover's present output at its recently-opened plant in Washington in the north-east of England.

In electronics, the past year has seen Plessey, the number one British company in semi-conductors take over the semi-conductor interests of Ferranti; a merger of Plessey and GEC's telecommunication manufacturing interests, and a link-upin defence electronics between Ferranti and International Signals and Controls of the US.

Most of these mergers and take-overs have been positive and, in some cases, long overdue. But they do point to one continuing source of weakness in British manufacturing - the lack of size of many companies.

The UK does have a number of large globally-competitive manufacturers. Coats is now the biggest European-based textile company, Glaxo is the world's sixth biggest pharmaceuticals company, ICI the fifth-largest chemicals concern and Pilkington a world leading flat glass producer. British Aerospace is the largest European aerospace operation and Marconi, a leader in many types of defence electronics.

But in many industries where powerful global companies are emerging, British competitors are often small by comparison and enduring all the handicaps which that places on product development and marketing.

Examples of this are many. Hotpoint is now the only UK full line white goods producer, but even after the TI purchases, its turnover of £500m is one sixteenth that of Electrolux in white goods, and an eighth the size of Whirlpool in the US.

The merger of GEC and Plessey's telecommunications operations created a company only at number eight in the world league table, a quarter the size of AT and T and smaller than European competitors, Alcatel, Siemens and Ericsson. Most of Rover's output is low margin volume-type cars but its production is smaller than that of a specialist high-value company such as BMW.

Having a broad cross section of first rate niche producers is as important, however, and the UK has very many of these - companies such as Lansing in lift trucks, Weir in pumps, GEC in turbines and Perkins in diesels. One serious problem is that a very high proportion of these companies are in older, capital goods industries with flat or declining demand rather than in consumer products.

This suggests two things. One is that the UK has held on to businesses in traditional sectors rather better than getting in to new ones. It still has a £3bn trade balance in mechanical engineering but a £2.5bn deficit in electronics. The other is that the UK falls far short of being a rated producer of consumer goods: it does not have many companies with an outstanding reputation in their respective fields, like Jaguar.

Britain is still an important manufacturing nation, however, with almost a quarter of its GDP dependent on it. The future health of scores of cities and towns - whose currrent depressed appearance is part testament to the continuing shortage of good, well-paid manufacturing jobs - will depend on how well and how quickly the UK can build on what it has retained.

IN OUR INNOCENCE, WE THOUGHT THE FT's 100th BIRTHDAY WOULD BE AN IDEAL DAY TO ADVERTISE THE AUDI 100. WE WERE NEARLY RIGHT.

WHEN WE put this proposal to our friends at Audi, they seemed enthusiastic.

'ACH SO, das ist herrlich. A great idea, but why not feature the Audi 80?'

WE WERE, we must admit, nonplussed. It must have shown.

'YOU WANT to know why? Galvanization of course.'

'OF COURSE,' we said 'how silly of us.'

'INDEED, THE Audi 80 has a fully galvanized body, which minimises corrosion. And that, of course, means that the Audi 80 lasts a good deal longer than many of its competitiors. Rather like your Financial Times, eh?'

WE HAD to agree but felt we ought to remind them that their own Audi 100 also has a fully galvanized body.

'THAT IS indeed correct but,' a triumphal gleam appeared, *'the Audi 80 looks much better with the Q3 option.'*

IT SEEMS we looked blank.

'METALLIC PAINTWORK option, number Q3, otherwise known as Flamingo. And what colour is a flamingo?'

'PINK.' WE ventured.

'QUITE SO, and what colour is the Financial Times?'

WE NODDED, and then rather rashly, as it transpired, suggested that it might be a good time to mention the fact that the Audi 100 was about to have its interior completely redesigned.

'AH HA!' We felt the coup de grâce coming. We were not wrong. *'That is precisely why we should not feature the Audi 100. After all, they have not changed the interior of the Financial Times for many many years. Is that not so?'*

DEFEATED, WE were forced to admit that the only reason we had suggested using the Audi 100 in the first place was a certain coincidence of a numerical nature.

Audi

A THOUGHTFUL silence descended across the table.

'ACH SO, one hundred and another hundred, yes, quite logical.' A pause, followed by a smile. *'OK, we have an idea, no Audi 80, no Audi 100. We meet you half way. We feature the Audi 90, ja?'*

UNDER THE circumstances, we thought it would be silly not to.

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THE DEVELOPMENT OF SOCIAL POLICY

Battle between two forces

A.H.Halsey looks at the history of welfare provision in Britain

THE FINANCIAL TIMES was born in an imperial and capitalist Britain. Two forces have since fought for dominance over social policy. As T. H. Marshall put it, 'citizenship and class have been at war in the twentieth century'. They were to seek their armistice in the welfare state.

Social policy begins with governmental response to frailty, dependence and disaster among the governed. In all societies these problems are primaevally met by family obligation, though legalised charity is ancient - the Romans gave bread to the poor.

The first industrial nation inherited familism, encouraged thrift but was baffled by the vulnerability of the industrial classes to market fluctuations. Puritan political economists misread poverty as sloth and invented the 1834 punitive poor law, offering relief from destitution on pain of suspended citizenship under discipline in workhouses.

Their Victorian commissioners were less stern in practice than in theory, but policy was directed to production rather than distribution, both of which they held to be properly private rather than governmental. The 'Treasury View' belonged to their grandchildren, yielding reluctantly to the 'New Liberal' theory of surplus which justified state redistribution of wealth and income but resisted Keynesian management of aggregate demand.

By mid-century with the (partial) enactment of Beveridge's programme for social security and Bevan's National Health Service, a comprehensive contract for protection against the vicissitudes of industrial life was in place. The historic compromise of the welfare state - committed to both a free market and politically organised charity - had become the social consensus of a capitalist democracy.

Even before the First World War Lloyd George's reforms reflected a vaguely defined feeling that government must provide against destitution for all compatriots.

The principle was there: the problem was how much and how. The aim shifted slowly and spasmodically from relief of absolute destitution to protection against relative privation, from the workhouse to the DHSS, from a patchwork of private prudence to universal state insurance.

Yet class resistance was stubborn, the Right fearing bureaucratic socialism, the Communist Left fearing attenuation of revolutionary zeal by a service state. Nevertheless, citizenship had victories. The twentieth century 'total' wars compelled a kind of siege socialism.

Between the wars there was a slow reformulation of the basis on which state help should be offered. The workhouse test retreated before compulsory insurance, providing cash payments 'as of right' in sickness and unemployment. Then, in the 1930s, first the unemployed and later the aged were offered unconvenanted payments by the state related to their needs.

The first major step to social security as a right of citizenship was brought in by Lloyd George in 1911 with limited unemployment insurance and more comprehensive coverage of sickness. Benefits were set at a flat rate in return for uniform contributions, by contrast with the German scheme which related contributions and benefits to earnings, appealing to the strong rather than the weak and doing less to rescue the very poor from the poor law.

In 1911 statutory unemployment insurance covered two and a quarter million men. After the war it was gradually extended to cover virtually all manual workers. Because of, and despite, mass unemployment in the slump years, benefits were increased in value and extended in duration.

The Depression brought crisis to state welfare. Conservative financing compelled cuts in government expenditure and reductions in social security payments which brought down the Labour administration. The value of unemployment benefit dropped ten per cent and a national means test was introduced, to be managed by the Unemployment Assistance Board set up in 1934.

Yet, the fact that payments were now made for the children of men out of work but not for those of employed men underlined the absence of family allowances and threatened the differential between relief income and earnings from employment.

Only in 1929 was the poor law dismantled and its responsibilities tranferred to the major local authorities. But there remained a million paupers supported by the public assistance committees of the local authorities in 1939.

Debate about the proper form of state relief - how far benefits should be a support of private savings, how far adequate in themselves for subsistence, whether they should have a contributory base or be funded from general taxation - was resolved by Beveridge in 1942. The scheme attacked 'want' through insurance against incapacity to earn and through family allowances for men in work.

The object was a guaranteed minimum income as of right, adequate for normal needs and to continue as long as the need lasted. Flat rate benefits in return for flat rate contributions now represented an elementary equality of citizenship. The minimum preserved the incentive to voluntary further effort, and limited the level of taxes. Insurance benefits were to be backed by a means-tested scheme of national assistance which it was assumed cheerfully and wrongly, would become less significant as insurance cover became virtually universal.

Social security was one part only of a wider plan for social reconstruction. It could only work on three assumptions: full employment, family allowances and a free and comprehensive health service. Full employment was essential if a contributory insurance scheme were not to run into deficit. Family allowances were essential to protect against poverty but also to maintain the differential between the incomes of working households and those on relief.

Sir William Beveridge: a bold programme for social security.

The National Health Service embodied Beveridge's third assumption. Unlike the social security plan, it was a sharp break from earlier health insurance, with no contributory conditions, comprehensive medical care to the limits of what the country chose to afford was to be available to all citizens through GPs, nationalised hospitals and local authority community and domiciliary nursing services.

In the 1940s, war fostered welfare. On a longer view the inter-war years, dominated by unemployment, nurtured the gradual acceptance of a national minimum standard of living for all citizens. The Second War raised popular expectations, though politicians and civil servants remained sceptical about expensive proposals for social security.

Beveridge himself attributed the fall of the wartime coalition government to its half-hearted support for his plan. Yet the succeeding Labour administration failed to introduce insurance benefits adequate for subsistence and reduced the value of family allowances. Bevan went through painful and protracted negotiations with the medical profession and the local authorities before a compromise health service emerged.

The political consensus of the post-war years was fragile. The giants of Idleness, Want, Ignorance, Squalor and Disease were atatutorily condemned. Full employment, social security, secondary education, new housing and the National Health Service would drive them into the forgotten past.

It was a noble moment of high civility, unclouded by expectation that these social evils would return in a yet more affluent generation together with their discarded economic liberal remedies.

□ *Professor A.H.Halsey is Director of the department of Social and Administrative Studies in the University of Oxford*

Hospital bedside greeting: Aneurin Bevan, Health Minister in the 1945-50 Labour Government and founder of the National Health Service, 40 years ago.

THE NATIONAL HEALTH SERVICE

A struggle to catch up

George Teeling Smith looks at the prospects for the NHS, once the envy of the western world.

THE NATIONAL HEALTH Service in Britain epitomises the welfare state, and the changes which are taking place in it. Health – like other aspects of welfare – is a growth industry. Almost all the countries of the western world have doubled the proportion of national wealth spent on health between the early 1960s and the late 1980s.

Typically, medical care accounted for between four and five per cent of gross domestic product in the early 1960s, and now accounts for between eight and ten per cent. In fact, Britain is an exception to this general rule. Health care in Britain has increased its share of national wealth by only 50 per cent over the same period; it now accounts for about six per cent of gross domestic product.

However, Britain will probably start to catch up with other countries over the next twenty years, as its national economy as a whole recovers. It seems to be a basic economic principle that countries spend a larger proportion of national wealth on medical care as they become more affluent.

There are three other fundamental reasons why health care will continue to absorb a higher proportion of national wealth. The first is the advance in medical technology. As more and more diseases become treatable, the scope for medical care steadily expands. The population becomes healthier, but it becomes more expensive to achieve that better health.

Second, as a corollary of this fact, the number of very old people will increase. They need disproportionately more care than the young or middle-aged population. It is the over-75s who are going to increase most in number and who need most medical care.

Third, as technology advances, so do public expectations for prevention and treatment. No one expected a new hip, for example, 30 years ago. Now, not only have new hips become routine, but we will soon also expect new hearts to be provided on demand. And at the other extreme of life, premature babies who had no prospect of survival twenty years ago are now expected to grow up into healthy children, thanks to modern medical technology. But these sorts of medical miracles cost tens of thousands of pounds for each life saved.

More mundanely, the prevention of scourges such as influenza and even possibly the common cold may soon be routinely available and may have to be paid for in the foreseeable future.

In Britain, under the National Health Service, it has become fashionable to see the resulting growth in expenditure on medical care as an economic problem. This is no doubt because the NHS is largely funded out of general taxation, and the present government has the laudable aim of reducing taxes.

As a result, there has been speculation that the NHS might be privatised, or replaced by some Continental style of health insurance. However, such radical solutions to the 'problem' are a chimera. It would be political suicide for any government to dismantle the National Health Service. It is extraordinarily popular with the electorate. In fact, recent surveys have suggested that the great majority of the public would like to see more spent on the NHS, even if it meant higher taxation.

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This is no doubt partly because the public are continually reminded by the popular press of the recurrent shortages under the Health Service: in coronary artery bypass surgery, for example, it is estimated by the experts that Britain should be doing three times as many operations as at present - the Americans do seven times as many per million population, but they perhaps perform too many.

With the treatment of fatal kidney failure, also, it is estimated that more than a thousand adults below the age of 65 die each year in Britain because treatment is not available for them. With less dramatic examples, the quality of care in health service hospitals often seems to fall far short of that provided in other countries.

All this no doubt helps to explain the rapid growth of private medical care alongside the National Health Service. Whereas in the 1950s private medicine accounted for only 0.5 per cent of total health spending in Britain, it now accounts for 5.0 per cent - a tenfold increase in its share. And private expenditure on health is still rising four times as fast as spending on the NHS. For non-urgent surgery, the private sector now finances 13 per cent of all cases.

There seems little doubt that private medicine in Britain is going to continue to expand its share of the health expenditure in the years ahead. No political party now openly opposes private medicine, in the way that the Labour Party did until a few years ago. It is recognised as an appropriate adjunct to the basic provision of the NHS, which can - and indeed perhaps should - be chosen by the new, very affluent sectors of the community.

Interestingly, this growth in private medicine is no longer so often seen as a threat to the quality of care in the National Health Service. The earlier accusations of "queue jumping" are starting to give way to a realisation that one fewer in the NHS queue means that those behind will receive treatment sooner. It is certainly fairer for a rich 'yuppie' to pay for his family's treatment privately, rather than to use his social influence to get preferential treatment within the NHS.

The remaining fear is that the growth of private medicine could exacerbate the shortage of resources within the NHS. However, the fundamental shortage is one of money, not manpower or materials. Provided that the Health Service responds to public expectations of better care, it, too, can grow alongside private medicine. There is no basic conflict between the two sectors.

Indeed, probably the most important development in health care in Britain over the next two decades will be a much greater co-operation and interchange between the public and the private sectors.

This is already very apparent in residential care of the elderly, for example. Only just over half of all old people in residential accommodation are paid for out of public funds and accommodated in publicly owned homes.

Ten per cent are paid for out of public funds, but live in privately provided homes; another 11 per cent are paid for privately in public accommodation; and 24 per cent are privately financed in private old people's homes. This sort of mixture of public/private provision and finance could well become a model for other aspects of welfare provision in the future.

Certainly, evidence from Continental countries suggests that there is no threat to the quality of care for the least privileged from a growth in the private sector. In the Netherlands, for example, one third of the population are privately insured for medical care, and only two thirds are covered by the state insurance scheme.

Yet a study by two health economists a few years ago suggested that the health of the Dutch population was better than in Britain or in France, where almost the entire population was covered by the state health insurance.

Perhaps the greatest benefit of all which would come from greater co-operation between public and private health care in Britain would be the logical introduction of 'market' principles within the 'free' National Health Service. Already the idea of different health districts buying and selling services between each other has started to be introduced.

This means that efficient hospitals not only attract more patients, but also get the extra finance to provide for their care. This sort of internal competition - including competition between the NHS and private hospitals - could provide exactly the sort of stimulus to efficiency which our 40-year-old National Health Service requires.

More resources; more competition; more efficiency; these, then, are the three elements which could transform the faltering National Health Service into an institution which once again was the envy of the Western world - as, in a sense, it was when it was created in 1948.

□ *Professor George Teeling Smith is director of the Office of Health Economics*

THE 1944 EDUCATION ACT

Reforms that have stood the test of four decades

Brian Simon re-assesses one of the great achievements of the wartime coalition

THERE IS NO DOUBT that the 1944 Education Act was one of the great reforming measores of this century. It crystallised aspirations which had developed across a broad spectrum of opinion in the depressing inter-war years - R.H.Tawney's Secondary Education For All, perhaps the most effective educational manifesto ever written, was published as early as 1922 - and provided the legislative basis for the massive expansion of education through the 1950s and 1960s up to today. In that *sense its provisions have stood* the test of time for more than four decades.

In sharp contrast to the Baker Bill of today, the 1944 Act was very much a consensus measure. It was carried by a coalition government - albeit one with a large Tory majority, but with all-party support. Butler and his colleague, Chuter Ede (deeply experienced both in politics and in local government) gained enthusiastic support for their reforming measure from all partiea in parliament (including Communist), from all the main teacher organisations, the local authorities and their officers, from a mass of voluntary organisations, and finally, and then most important, from the Churches (in particular the Church of England, which had a large stake in the schools). This was a genuinely popular measure of social advance, if ever there was one.

Legislation, again in sharp contrast with the Baker Bill, was preceded by almost three years of intensive public discussion - and this during a war. As early as June 1941 the self-appointed planning group of civil servants at the Board of Education produced a detailed sketch of the future in the famous Green Book, first distributed in 'a blaze of secrecy' (even Butler, not then Presideot of the Board, was at first denied a copy), but shortly to be made publicly available. This provided the spur for all organisations that wished to sort out their own proposals, to publish them and to enter into discussions with the President, himself a past master at negotiation.

Butler's major achievement, of course, was to reach a satisfactory compromise with the Church of England in particular, but also with the Roman Catholics who, however, were less happy with the final solution. Fundamentally, this allowed more public money to flow towards Church schools in return for greater public control.

This was essential to break the logjam, and haul the system effectively into the mid-twentieth century. It was not only that Church schools were deteriorating badly due to lack of funding; the Churches had signally failed, in the late 20s and 30s, to carry through 'reorganisation' on the lines of the Hadow report of 1926, accepted as government policy from 1928.

By 1938 only 16 per cent of Church schools had been reorganised (split into primary and post-primary departments or schools) compared with more than 65 per cent of local authority schools. No reform was possible without this breakthrough.

There is no doubt that this success was due to Butler's own efforts, especially in winning the essential support of William Temple, the far-sighted Archhishop of Canterbury. Without it the central feature of the 1944 Act - secondary education for all - could not have been won, as Butler himself clearly recognised. Negotiations, especially with the Roman Catholics, were long and tortuous. In his own writings on this period, Butler devotes by far the greatest attention to this aspect of his measure.

The Butler Act brought all post-primary schools under a single code of (secondary) regulations. By this means the old divisioo between elementary education (for the masses) and secondary education (for an elite) was, in a formal sense at least, finally overcome, fees being abolished in maintained secondary schools.

This was the Act's main egalitarian significance, but it also provided for the raising of the school leaving age to 15 (achieved in 1947) and finally to 16 (though this took a full generation). It also provided for compulsory part-time education for all to 18 in county colleges - an important perspective never in fact realised.

It laid down the respective roles of central and local government in the 'delivery' of the system, and so crystalised the 'partnership' by which education was administered up to today (but for how much longer?). Generally the Act gave expression to a generous view of the scope and character of education as 'a national service, locally administered', though it did not in any way touch on the curriculum (except in the provision for compulsory religious instruction - part of the deal with the Church).

Because it contained no precise definition of the structure of secondary education, the massive transformation to comprehensive schooling of the 1960s and later could be carried through within existing statutory limits. Hence the Act's lasting significance now for nearly half a century.

> In sharp contrast to the Baker Bill of today, the 1944 Act was very much a consensus measure

But how is the Butler Act evaluated by historians today? Was it 'the greatest measure of educational advance since 1870, and probably the greatest ever known', as Harold Dent, then editor of the Times Educational Supplement, and the Act's chief publicist and celebrator, claimed at the time, or was it basically a cautious, typically Conservative measure, as argued recently by Paul Addison (in The Road to 1945) - one which preempted a more radical measure which seemed, at one time, a possiblity?

Early in the war, especially immediately after Dunkirk, sharp criticism developed of the 'public' schools, both for their divisive social effects and for their 'failure' in terms of leadership. Many organisations called for their assimilation into a national system, and it was widely accepted that things could not go on in the old way.

Here, Butler successfully outmanoeuvred the democratic movement. A Commission was appointed to make recommendations. When the Education Bill finally appeared in December 1943 there was nothing in it on this issue - the matter, Butler announced was still under discussion.

The Commission only finally reported after the Bill was through parliament. Characterised by Butler as 'this sensationally ingenuous report', no action followed. 'The first class carriage', as Butler wrote later in self-congratulation, 'had been shunted on to an immense siding'.

Another controversial issue was the future structure of secondary education. Was there to be one school or three - in other words, were the grammar schools to remain inviolate as selective schools in the new dispensation?

The Bill itself left this question open. But here again a special committee had been set up to advise on examinations and other matters - the Norwood Committee. The White Paper, issued io July 1943 presaging legislation, had assumed the tripartite system (grammar, technical, modern) as inevitably the future. The report of the Norwood Committee, published only a few days later, also strongly argued the case for the tripartite system, providing an ideological legitimisation for this structure.

In this way the stage was set for the imposition of this system thereafter, though it must be noted that this was in fact carried through by the Attlee governments of 1945-51. The wide support for the single ('multilateral') school, which had erupted between 1942 and 1944, had its (temporary) quietus.

Butler had his Bill ready at a crucial moment, In November 1942, just at the moment when the Allies achieved their first really successful operation in North Africa, Sir William Beveridge produced his famous report - to a fanfare of trumpets. A queue a mile long formed down the road from the Kingsway HMSO centre for copies.

The government now came under immense pressure for action on issues relating to social welfare, and this was reinforced by a series of by-election losses. Growing concern developed among representatives of traditional Tory policy. It was at this moment that Butler was able to produce his White Paper, foreshadowing legislation - and providing a welcome diversion from Beveridge.

The Bill, while embodying substantial reforms, was also suffused with Conservative values. The role of religion in maintained schools was reinforced. Educational privileges were perpetuated through the protection of the public schools; the direct grant schools (which continued to charge fees); and, in essence, through the protection of the grammar schools within the maintained sector.

When the bill was finally published in December 1943 it was welcomed by the (Tory) Chief Whip, James Stuart, as a means of keeping MPs occupied without provoking party strife - a point confirmed by Butler.

In appointing Butler as President of the Board of Education, Churchill had warned against even thinking of legislation. But, due perhaps to an unusual concatenation of circumstances, it was R.A. Butler who triumphed in the end.

Butler later claimed that he recognised, as early as 1941, that a Socialist government was likely to succeed the Churchill administration. Hence the importance of using 'the immediate present to reform our educational system'. This involved conceding 'secondary education for all' - a policy proposed by the Spens Report at the close of 1938, but immediately rejected with contumely by the National Government of the day.

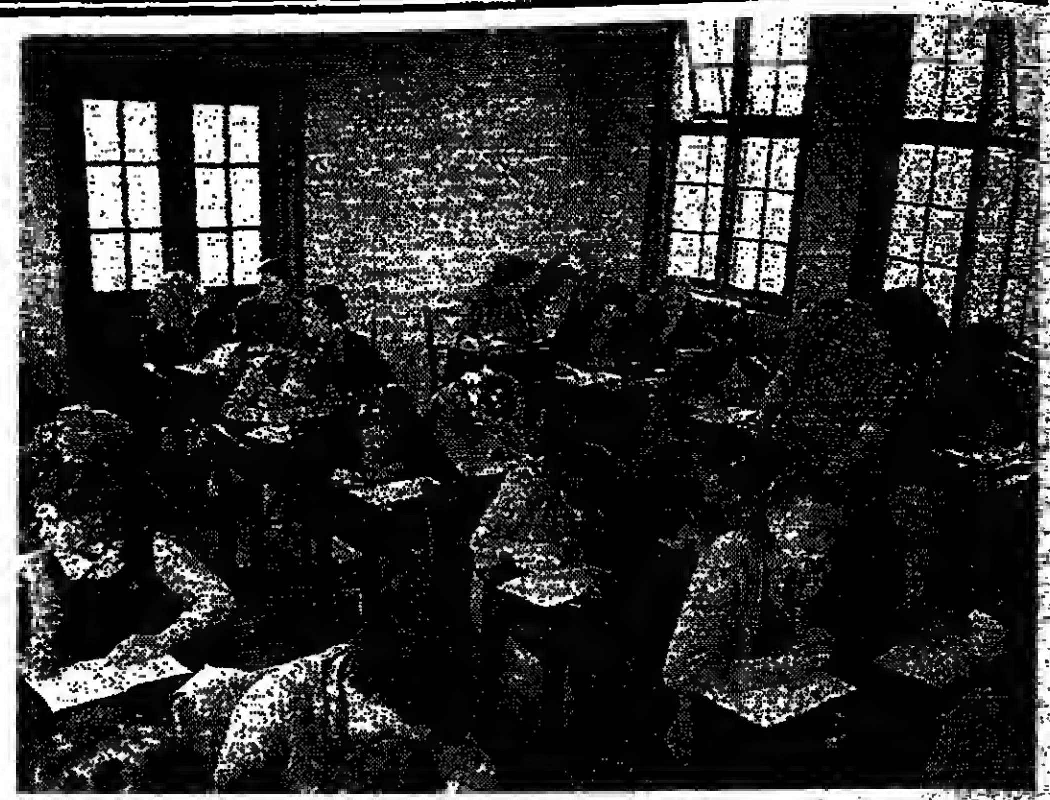
Had the county college sections of the Act been implemented, and these built on subsequently, we might now have a system of combined education and training equivalent to those of the most advanced of European countries, instead of being at the bottom of the league in this respect

Had secondary technical schools been energetically developed in the post-war years, these also would have made their contribution. But no government was prepared to grasp either of these nettles in subsequent decades. Here may lie the long-term tragedy of the 1944 Act.

□ *The writer is Emeritus Professor of Education, University of Leicester.*

R.A.Butler (above) and his colleague, Chuter Ede – deeply experienced both in politics and local government – gained strong support for their reforming measures from all parties.

THE FIRST 100 YEARS



Top, left: a classroom scene in the 1880s; centre, top-hatted Eton Volunteers prepare for war with drill practice in 1914; right, 40 years ago, children from Wakefield were able to have a "working holiday" near the seaside, without giving up school-time. For 30 shillings (£1.50), they enjoyed a three-week stay at Hornsea, where the Wakefield Authority built special classrooms.

EDUCATION TODAY

A question of purpose and value

Michael Dixon, Education Correspondent, sees confusion behind the reforms now being implemented

THE QUESTION that is probably most frequently asked about education is: "What do I have to go to school *for*?" – nearly all of us have flung it at our elders at some time, and have not always been satisfied by their answers.

The most common reply made by adults over the past century has been: "Because the law says so." When the Financial Times first appeared in 1888, primary – then termed "elementary" – schooling had for eight years been compulsory for children in England and Wales between the ages of five and 10, and pupils with poor records could be made to continue until 13. But it was not until 1891 that fee-charging even for elementary schooling was largely abolished.

Scotland, as so often, had led the way by making schooling compulsory from five to 13 as early as 1872, when there was already a right to free-of-charge attendance. The Scots also raised the minimum leaving age to 14 in 1901 whereas England and Wales did not follow suit until 20 years later. In 1947 the minimum age went up to 15 both south and north of the Border, and it was lifted to its present level of 16 while Mrs Margaret Thatcher was Secretary for Education and Science in 1972.

But while citing the statute-book may enable adults to silence reluctant pupils' protests, it hardly answers their perennial question. Although the law's command explains *why* they must attend school, it does not explain what they have to go there *for*. Nor would a child who persisted in asking the question have much chance of obtaining a conclusive answer.

After over 100 years of compulsory education, when the state-funded service is costing about £18bn a year, the purpose of the activity remains in dispute. Moreover, the opposed arguments still often resemble those of mediaeval times when one main party held that the purpose was to develop self-contained scholars, while another claimed that it was to produce socially responsible and practically capable citizens.

The argument currently favoured by most British people, outside the educational profession at least, is the capable-citizen view. It owes its present prominence initially to a speech by Mr James (now Lord) Callaghan when he was Prime Minister of the Labour Government in 1976. He stated that part, even though not the whole, of education's purpose is to equip young people to earn a living in a pluralistic society increasingly dependent on the exploitation of advanced technology.

Although his statement immediately found much support among the lay public, the education service in effect stayed committed to the scholar-producing view. It went on concentrating its efforts overwhelmingly on youngsters with aptitudes for academic studies while largely failing to develop the different talents of the many children whose intelligences are of a practical kind.

The capable-citizen argument has nevertheless continued to gain ground under the two most recent Conservative Education Secretaries, Sir Keith (now Lord) Joseph and Mr Kenneth Baker. During their years in office there has emerged wide agreement that, by comparison with the education services of countries such as West Germany and Japan, the British service is poor at equipping young people to earn their living in an advanced economy. In addition many voters, probably doubting that UK education will make the necessary adjustments voluntarily, believe it is time for the national government to re-shape the service by law.

As a result the FT's centenary coincides with the introduction of far-reaching changes to the schools, colleges, polytechnics and universities through the Conservatives' Education Reform Bill. Its prime aim is to bring the state-maintained service under more effective management. It proposes to do so by a mixture of centralising and decentralising steps which combine to prune the powers of the numerous more or less independent bodies at present controlling various parts of the educational network.

For example, although local authorities will remain largely responsible for state-funded schooling, the Bill seeks to hand some of their prerogatives to individual schools.

The local councils would cease to be able to hold down the intakes of schools oversubscribed with applications, so as to keep up numbers in less popular schools. Those in high demand would have to be allowed to take in as many children as they had room for. Successful schools' governors, backed by a majority of parents of pupils, could apply to be freed from local-council control and be funded by central government. Head-teachers and governors of all but the smallest schools would also be given more power over the spending of their budgets and over appointments and dismissals of staff.

While loosening the rein on which individual schools have been held by their area's local authority, the legislation seeks to centralise control over them in another way. Whereas what they teach has so far been largely decided by their heads and teaching staff, the Bill proposes that all normally able pupils should henceforth follow a national curriculum occupying at least 70 per cent of classroom time.

In England (there are differences of detail for Wales, and both Scotland and Northern Ireland would be under separate albeit comparable legislative provision) the curriculum would consist of English, mathematics, science, technology, history and geography, combinations of music, drama and design, and physical education. Secondary-school children would also have to take a modern foreign language. All schools would additionally have to provide religious studies. Pupils' progress would be checked, probably by national tests taken at several ages such as 11, 14 and 16, and possibly in a limited version at seven.

Even so, the imposition of such compulsory studies and checks will not necessarily have the effect which ministers and most of the public seem to want. The centralising measure may succeed in raising UK pupils' general attainments to the higher standards reached, particularly in maths, by children of comparable academic aptitude in West Germany and Japan. But it is doubtful that British youngsters' more practical skills can be adequately developed by a curriculum so dominated by conventional subjects as to allow but a tiny proportion of time for the study of technology.

Indeed the Government's only apparent strategy for countering the over-concentration on scholarly pursuits is centered on the post-school levels of education, where the Bill proposes several measures to increase emphasis on practically directed activities.

Colleges providing courses for qualifications whose academic status is below that of a degree would be placed under governing bodies containing powerful representation of business interests. Awards of taxpayers' money to universities would be decided by a funding council required to favour those seen to give value in return, and more open to ministerial direction than the present

Independently of the Bill, the Government is offering universities and other degree-awarding institutions special inducements of up to £1m to produce schemes for changing their courses and teaching methods to make students more commercially enterprising and equip them with skills needed in the economy.

At present, of course, nobody can be can be certain whether the legislative upheaval and its associated measures will prove to be worthwhile. There is, however, one thing which already can be fairly safely said. It is that unless the purpose of Britain's education service has changed from scholar-producing to the development of more broadly capable citizens before yet another century goes past, the UK's days of prosperity will by then be over and done.

In South London, a student completes a recent art project at Furzedown Comprehensive School.

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MANUFACTURING

Knowledge of the business still the key to success

The Japanese have proved good learners, says **David Sawers**

THE PRODUCTS of manufacturing industry have been transformed in the last 100 years. Electronics were a laboratory phenomenon in 1888, the motor industry had just been born, and the electrical industry was no more than a fast-growing infant. Iron and steel, mechanical engineering and textiles were the dominant industries, and coal was virtually the sole source of power.

Japan was only beginning the process of industrialisation, and the US was already the largest and most efficient manufacturer in the world. Britain ranked second and Germany third, but German industry was growing twice as fast as British. American manufacturers remain the most efficent in the world in 1988, but Japanese industry now comes second with productivity 30-40 per cent less than in US industry. Productivity in British manufacturing is little more than half that in Japanese industry and about two thirds of that in French or German industry.

The decline of British manufacturing relative to that of the Continental countries and Japan accelerated after the Second World War. US industry also lost ground in this period. Since 1980, however, productivity has been growing as fast in British and American industries as in Japanese or Continental industries, as their industrialists have sought to reverse the trend.

The transformation of the products of manufacturing industry since 1888 has been the combined effect of technological innovation and economic growth. In 1888 the consumer goods which were being made were simple, such as textiles and some foods; capital goods formed a high proportion of manufacturing output. Rising incomes have meant that consumers have more to spend on manufactured goods; and technology has supplied goods for consumers to buy, such as cars, television sets, video recorders and cameras.

Manufacturers have increasingly become suppliers of con-

Manufacturers have increasingly become suppliers of consumer goods, and of discretionary or fashion products.

sumer goods, and of goods which are increasingly discretionary or fashion products. At the same time, technology has eased the task of preparing variants on the theme of consumer products like the motor car or camera, providing the manufacturer with more methods of stimulating demand for his products.

But in so doing, technology has made the managerial task far more complex; managers now have to decide what new products will be attractive in which markets, whereas in 1888 the range of products they could supply was both more limited and more familiar. Far less often did the manufacturer then have to decide whether a new product would appeal to enough buyers to make its development and launch profitable. The technical and commercial expertise that managers needed to be successful was therefore far narrower in 1888 than it is today and management was a much simpler task.

The increased differentiation around the basic product has affected international trade as well as manufacturing. Trade in consumer goods does not only occur because one country has a comparative advantage in the production of cars and another has a comparative advantage in the production of cameras; it also occurs because there are hundreds or thousands of different variants of car or camera that can be produced, each of which satisfies a slightly different demand, so that no one national industry can economically satisfy all domestic demand, however large its comparative advantage in car or camera production may be.

The increased complexity of the managerial task in manufacturing over the last century has not changed the basic requirements for successful managers. Now as in 1888, they have to understand the technology and the market, which implies knowledge of the details of the company's operations in each sphere. They need to possess an infinite capacity for taking pains over possible improvements to production processes and the strategy of new product development, and the expertise to ensure that they take pains over the important matters. These characteristics imply assiduity, industry and willingness to change; and they have to be combined with the ability to lead their subordinates wherever they want to go.

The managers of 1888 were more likely to have been promoted from the shop floor than are the managers of 1988, so that those Victorian managers were more likely to be familiar with the details of the production process of their company. But they were also likely to have received less formal education than their modern counterparts; and this lack of education handicapped those industries, such as the British, which retained this source of recruitment for managers after business became more complex in the twentieth century, and after industries in other countries had begun to recruit university graduates for managerial posts.

So long as the graduates learnt the business effectively, they were better able to exploit the growing number of technical and commercial possibilities open to a manufacturer than the older style of manager, with his limited knowledge of the world outside his factory.

The modern manager, with his academic training, has all the more need of experience within the plant if he is to provide effective leadership for the workforce in an age when workers give their consent rather than accepting their orders. In the factories of 1888, orders tended to be obeyed with little questioning, but the development of a more egalitarian society in the past century has created workers who expect to be persuaded, not to be ordered.

The task of the modern manager is thus more difficult in the management of staff, as well as in technology and marketing; he has to win the respect of his staff by demonstrating competence and leadership. If he can do so, however, he can then take advantage of a better educated labour force, which can contribute more ideas for the improvement of a company's operations than might the workers of the nineteenth century.

Western managers may be at a disadvantage compared with managers of Japanese firms when it comes to motivating staff. Japanese managers who have worked in Britain report that British workers need more persuading to accept managerial proposals than do Japanese employees, who are generally more tractable and obedient, and more willing to equate their own interest with that of their employer.

Consensus may be a Japanese habit, but it seems easier to obtain in a Japanese than in a western company because the Japanese subordinate is more subservient. This characteristic of the Japanese employee gives the Japanese company a particular advantage when it comes to operating a large plant such as a car factory.

The most successful manufacturing nations of the twentieth century have been those where managers most effectively combined academic skills with practical knowledge of their company's operations. These countries have been Germany, Japan and the US. When managers in the US became more interested in planning and less interested in production, in the past thirty years, American industry began to lose ground to European and Japanese industry. British industry, which had failed to introduce academically educated staff and then, when it started to do so, failed to ensure that they gained experience of the factory, has been about the worst performer of the twentieth century.

The British industrial decline reflected a loss of interest in manufacturing industry among British society. Industry offered a lower class career than the professions or the government service and within industry factory management offered a lower class occupation than financial management or planning.

Top managers, therefore, came to be people who knew little of the means by which the company's products were made, and who paid little attention to the productive activities of their firm because they did not understand them. If the top managers still understood the factory, they were liable to be practical men who did not understand the market.

Like their post war contemporaries in the US, the top managers of British manufacturers in the present century have tended to put more emphasis on the financial than on the "real" activities of their firms.

Their quest for profits through financial controls over their companies' operations has, ironically, produced much lower profitability than Japanese companies have achieved because the operations of the British companies have been so much less efficient. The high profits of Japanese industry demonstrate that concentration on the essentials of manufacturing performance creates the most profitable concern.

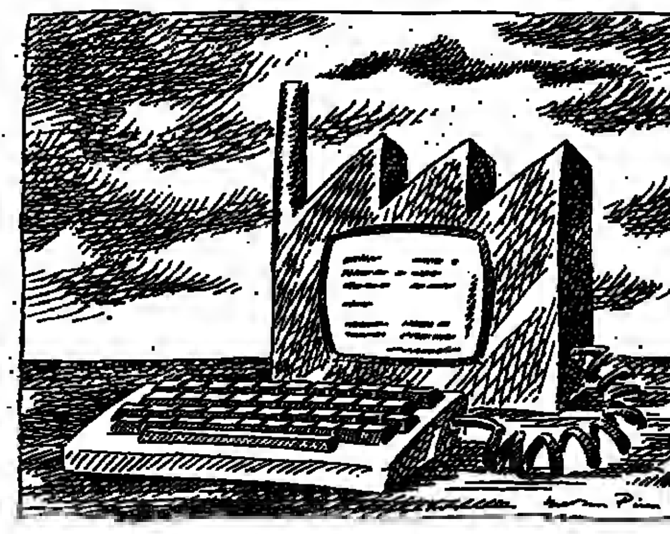
The changing fortunes of nations in manufacturing industry over the last century seem to reflect their acceptance or rejection of the basic requirements for success: that the managers should understand the business, and should always be seeking to improve its performance.

Fashions in management methods have come and gone, but nothing has changed the underlying truth that the performance of a manufacturing concern is improved by constant study of the relevant technology, the operations and the market; and by frequent experiments in the laboratory, the plant and the marketplace.

The Japanese, absolute beginners a century ago, have absorbed this lesson from their British and American teachers and applied it with admirable assiduity just at the time that their teachers chose to relax. Their success has stimulated their teachers to try harder again, although they are sometimes to be seen trying to adopt the techniques which some Japanese companies use rather than the attitudes, the assiduity and the experimentation, which seem the more significant influence on Japanese success.

British and American industrialists who seek to learn the lesson of the last century could do worse than to conclude that Victorian standards of effort and application are a prerequisite of success in manufacturing industry. Add what has been learnt since about technology and marketing since 1888, and a dash of Confucian philosophy, and you have modern Japanese management.

INDUSTRY & SCIENCE



FINANCIAL TIMES 1888 1988 CENTENARY YEAR

Industry's task has changed dramatically. Spurred on by advances in technology, manufacturing has moved since the late 19th century from meeting basic needs to supplying a range of mass market consumer demands. Accompanying this has been a revolution in science, medicine and other fields, such as transport.

MANAGEMENT

Nostrums fall from favour

Christopher Lorenz on the quest for balance

HARD-HEADED managers, consultants and academics have preached for decades that companies should always ask themselves the fundamental question, "what business are we in, and which do we *want* to be in?".

So it was entirely appropriate, on Valentine's Day 1967, for the Financial Times to launch its new Executive's World page, forerunner of the Management Page, with an article which began:

"If there is any management principle which has some claim to universal validity, it is this - stick to what you are good at, and don't diversify into fields where you have nothing special to contribute".

Far too few companies evidently took heed of this nugget of journalistic wisdom. In 1982, a full 15 years later, the Management Page reported a set of studies which showed that the frenetic diversification drive of the 1960s and 1970s was still under way in the US and Britain: between 1970 and 1980 the number of conglomerates in the Fortune 500 list of top US companies more than doubled, to over a third of the total, with the UK tally soaring almost as fast, to nearly a fifth of the country's 200 largest enterprises.

It took another year or two for the dangers of excessive diversity to become so painfully apparent, in the form of strained management resources or financial problems (sometimes both), that they could no longer be ignored. Divestment (or 'back to basics') then became the preponderant fashion.

Now, with the Management Page celebrating its coming-of-age, the average company also seems to have matured, realising that the ideal portfolio of businesses consists of a strong central core, surrounded by a few closely related interests. There are still plenty of exceptions: they include specialised conglomerates such as Hanson, as well as the fast-growing empires of Carlo de Benedetti and others in continental Europe.

All of these have still to prove their staying power. But 'model' conglomerates such as *Harold Geneen's ITT* have been dismembered, and most companies have struck a new balance

Continued on page 14

THE FIRST 100 YEARS

Continued from page 13:

between the extremities of past fashions.

It is the same in almost every other walk of management. Almost a century after the birth of the large, complex corporation and the consequent emergence of professional business management as a recognised, cootroversial and much-studied activity, companies young and old are growing less impressionable. Even in faddish America they are becoming less prey to pendulum-like swings of fashion, whether it be for 'cash cows', culture or quality circles. Under intense pressure from all the growing complexities of international competition, information technology, and the rapid rate of change in every aspect of business, executives are at last recognising one of the essential truths of modern management: that it consists of the constant reconciling of opposites.

They are also coming to realise that the appropriate balance varies over time, and from place to place, so that no particular solution is fully exportable from one era to the next, or from one place to another - be it from America to Europe, or from company to company. In the jargon popularised by Tom Peters and Bob Waterman, coauthors of the buainesa bestseller, *In Search of Excellence*, managers are coming to grips with the need for tightness combined with looseness, hardness with softness, analysis with instinct, intellect with heart, education with experience. In a phrase, they are learning to manage ambiguity and paradox.

This is evident in all aspects of management, from strategy and structure right through to human relations.

In strategy, not only are various appropriate balances being struck between diveraity and specialisation, but the old idea that companies should be either technology-driven or marketing-led is being replaced by the recognition that both can be equally important, with the balance depending on time and circumstance. Similarly, the mid-1980s craze for blanket globalisation (whether of products, brands or advertising) is fast giving way to a level-headed balance between global standardisation and responsiveness to national differences.


Sharing ideas: British and Japanese workers discuss questions with a supervisor during a morning break period at a Japanese-owned factory in the UK.

At the same time, the dictum that a company should have sole control and ownership over everything it does has also given way to a pragmatic readinesa to disaggregate various activities and share them through alliances, joint ventures, spin-offs and the like. More fundamentally, the notion that strategy is a linear process, in which analysis always precedea action, ia being replaced by an iterative approach, where the one constantly influences the other. Thus planning is no longer seen to be in conflict with opportunism: the first sets a loose framework for the second, and is in turn affected by it.

Even America's business schools, fountainhead of the discredited idea that management is a purely cerebral activity, are coming to accept that Honda's legendary invasion of the world motorcycle market in the 1960s was not the carefully-planned exercise that their early case studies claimed it to be.

In the always muddy field of organisational structure, pathfinding companies are abandoning the exclusive dogma of functional versus divisional versus business unit structures. Instead, the likes of IBM, Hewlett-Packard, Unilever and Philips - plus some smaller fry - are groping towards a tailor-made combination of centralisation and decentralisation, in which a flexible, and relatively informal, balance between the two replaces the traditional bureaucracy of matrix organisations.

This quest for the reconciling of organisational opposites stems in part from the need to reflect newly rebalanced corporate and business strategies. But it also reflects a greater recognition of the human factor. The fact that people work best in small units has long been realised in theory, but only recently in large organisational practice; now companies are trying to combine the two through all kinds of experiments, notably what consultants, and practitioner-pundits such as John Sculley, the Pepsi bureaucrat-turned innovative boss of Apple, call 'the network organisation'.

One of the hallmarks of this new breed of enterprise is its constantly-shifting, almost ad hoc structure. Another (and a further paradox) is the way its leader combines the forceful setting of direction, and the distribution of corporate resources, with an empowering of employees to almost innovate their own way towards the common goal. That might sound like an airy piece of academic self-contradiction, but is precisely the sort of 'tight-looseness' which makes Japanese companies such lethal and fleet-footed competitors. Sculley and other western business leaders are now trying hard to emulate them.

Behind this approach, among other things, liea one of the most unlikely new balances of all: a sort of reconciliation between two views of human nature which have alternately coloured employee relations policies for over a century (they were originated by Plato and Aristotle). The first, popularly known as Theory X, argues that people have to be compelled or induced (financially or otherwise) to do the right thing. It underpinned the concept of scientific management which was pioneered by Frederick Taylor around the turn of the century, and was then applied with a vengeance to the organisation of factory work into repetitive, low-level tasks. There is little doubt that the near-universal prevalence of this view in many western countries contributed heavily to many of this century's battles between management and labour.

The second view, dubbed Theory Y, holds that people are best motivated by guidance and encouragement, rather than by policing and penalties. After stuttering on and off for decades, its influence only really began to take hold in American and European companies at the beginning of the 1980s, when quality circles and other 'Japanese' approaches became widely known and admired. (Much of the thinking behind them was actually done by western academics, consultants and practitioner-pioneers).

After a short period of flirtation with the idea that people-management was, after all, really just a matter of creating 'soft' consensus (and that individual financial incentives were almost unseemly), western companies have been inching towards a combination of 'X' and 'Y'. In a growing number of cases stern negotiation and clear objective-setting, are being reinforced by an unprecedented sharing of information and encouragement of initiative (by both individuals and teams).

In many companies attractive financial incentives are also being provided, for shop floor workers as well as managers. This combined approach has already acored a number of notable successes, for instance helping several US independent ateelmakers to thrive in what was seen just a few years ago as a notoriously doomed industry.

The achievement of balance on so many managerial dimensions is, to say the least, quite a challenge. As even the practised tightrope-walker knows, it is all too easy to step too far one way or the other. Embracing the attractions of corporate alliances, to take just one dimension, can all too easily lead to the surrender of one's core strengths, as a number of western companies with stroog Japanese partners have found to their cost.

It is equally difficult, even for a company io a slow-moving marketplace, to strike the right organisational balance between decentralisation and co-ordination; many a corporate headquarters is scratching its communal head about its most appropriate future role and size.

Above all, it is remarkably hard for substantial organisations in fast-moving markets and tecbnologies to keep up with, let alone master, the constant speed and unpredictability of change which pervades almost every aspect of today's business environment.

Diverse views on management present an historical conundrum, says **Christopher Lorenz**

The 'management' paradox

■ "Rarely, if ever, has a new basic institution, a new leading group, emerged as fast as has management since the turn of this century". *Peter Drucker, doyen of business punditry, in "The Practice of Management", 1954.*

■ "Management is not e new basic institution at ell. It ie e very encient art. The new science of management is in fact only a continuation of the old art of government". *Antony Jay, student of realpolitik and co-author of "Yes, Prime Minister", in "Management and Machiavelli", 1967.*

■ "The operative change in the 19th century was probably the steady increase in the size of organisations so that, beginning with one or two (owners') agents, it made sense in time to talk about 'the management'... In the more refined employments the colonial and civil services - there were no managers but 'edministrators'... the Americans began the process of pumping 'management' full of legitimation". *Alistair Mant, intellectual agent provocateur, in "The Rise and Fall of the British Manager", 1977.*

■ "The English word 'manager' derives from two distinct roots. In the 16th century it enters the language from the Italian maneggiare - one who breaks horses - the true macho-menager. In the 18th century it is separately derived from the French menager - the domestic economy of e household or kitchen - the nurturing manager notion. The English term 'maneger' ehould therefore incorporate both. It is sad thet et present it rarely does in practice." *Bob Garratt, administrator turned consultant, in "The Learning Organization", 1987.*

■ "Excellent companies, if they know any one thing, know how to manage paradox...(They) are both centralised and decentralised. For the most part...they have pushed eutonomy down to the shop floor or product development team. On the other hand, they are fanatic centralists around the few core velues they hold dear". *Tom Peters and Bob Waterman, consultants-turned-millionaire evangelists, in "In Search of Excellence", 1982.*

■ "What will be needed in future are organisations where all functions are more closely coordineted than ever before....the successful managers will be those that manage change across the whole business rather than in separate parts". *Valerie Hammond and Kevin Barham, researchers, in "Management for the Future", 1987.*

■ "Most managers manege the consequence of events that heve already taken place - they're always dealing with the aftermath. Instead they should manage events which haven't yet happened - they should learn to manage the beforemath. In the face of crisis, transition, and rapid change, we need to learn how to operate in real time". *Stanley Davis, academic-turned-prophet, author of "Future Perfect" (published in UK as "2001 Management"), 1987.*

Pre World War II Advertisement

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TRADE UNIONS AND THE FUTURE

Adapting out of decline

John Lloyd takes a contrary view of the prospects worldwide for trade unions

IT IS no longer a contentious matter that labour unions are in decline all over the advanced world. The issue they face is not to contest that – but, instead, to seek a means of arresting decline or, if that proves impossible, to keep it as slow as possible while finding a role to play in keeping with their reduced circumstances.

The causes for that decline are well rehearsed: the shrinking, even disappearance of the heavy and labour intensive industries which gave many unions their birth and which sustained their memberships; the concomitant shrinking of vast plants and their replacement, in many sectors, with smaller, more tightly managed units; the growth of service and professional sectors, where unionisation was and is weak; the burgeoning of part-time and home-working; and the loss of power by many governments of the left over the past decade.

The unions, having often sought to deny or pooh-pooh these factors, are now as seized of them as any. However, neither they, nor those who wish to see them continue to decline, can know with any certainty what the future holds for them (Professor George Bain, the UK's authority on unionisation, told a recent business seminar that the most authoritative predictions of continued union decline had been made in the mid-sixties – on the eve of an unprecedented boom in the unionisation of white collar and salaried employees, assumed by experts to be immune to union blandishments).

The most fruitful exercise, in an essay like this one on the period ahead, is to act as a witness for the defence of the thesis that unions *can* - though not necessarily *will* - grow again, or at any rate reach a relatively level plateau of the kind on which they found themselves in many countries for the two decades after the last war. This exercise, which has the arguable merit of being unusual, should of course be set beside the more common forecast of continued decline.

Three major factors are commonly adduced as leading to the growth of union membership: low unemployment; high inflation; and a government of the left. These factors, often present simultaneously in advanced countries in the sixties and seventies,are now relatively rarely found in co-existence. Indeed, only the Scandinavian of Western European countries have even two of those (governments of the left, and relatively low unemployment).

But these factors can all return, and probably will: and while it is unlikely that their conjunction will dictate the same kind of corporate politics practised in the fifties, sixties and seventies, it is also difficult to see how the pressures they create will *not* give rise to collective responses from workforces more vigorous than at present.

Yet that apart, the social democratic settlements adopted in different forms by most advanced countries since the war - in which the social partnership of government, business and unions settled by central bargaining issues such as pay, the "social wage" and even investment levels – still holds out, somewhat attenuated here and there to be sure, in many countries, especially in Northern Europe and Australasia.

Governments of the right and the left which come to power in these countries expect to deal with strong, coherent union centres – and frame their policies accordingly. An example: Norbert Blum, the West German Labour Minister, is a former metalworker and active trade unionist: in his case, his unionist background was in the Catholic workers' group, which has a traditional alignment to the CDU, or main party of the right.

Blum's style is consensual and cautious: and though his policies and legislation – especially on the payment of social security during strikes – has been controversial within the unions, he still seeks to command the centre and to work, as far as possible, by at least reluctant acquiescence.

Against this, we should counterpose the experience of the Labour or socialist governments of Australia, Spain and New Zealand, where the policies of both have met with protests, even strikes, from the trade unions: and where the governments have not lost in popularity in the polls for being seen to "take on the unions".

We may, indeed, be witnessing a new phenomenon: where governments of the left adopt modernisation policies (especially in the case of Spain) which inevitably challenge the vested interests of labour as well as, indeed, often more than, those of capital: and that this is given an extra twist by being combined with the perceived needs of the governments to court public opinion by being seen to be tough on a pressure group which might become too powerful.

In these cases, the unions receive little benefit, at least via economic policy, for their support of the government – though they and their members may well benefit through social policy. The parties of the left have ceased, in most cases, to be parties of a class – the working class – interest, because they believe that that class is no longer numerous enough, or conscious enough of itself as a class, to form the basis of a winning electoral platform.

If this is a firm trend, the unions throughout the advanced world have to be on their mettle to succeed as best they can on their own account. That means organising those groups of workers,in service and in "marginal" workplaces, whom they have neglected hitherto: and that is exactly what is now happening - though with varied success.

Among the most dramatic and expensive of such strategies was the effort mounted over the past three years by the US union confederation, the AFL-CIO: its "Southern Strategy" saw millions of dollars and hundred of organisers poured into the traditionally barely-organised deep south in a sustained attempt to establish unionisation in the new, "sunbelt" industries. The strategy had some isolated successes: as a whole, however, it failed.

In Britain, presently, two strategies have emerged, and are being pursued simultaneously. One, dubbed new realism, sees the craft unions attempt to make themselves as attractive as possible to employers, a project which has had some real success, especially in multinational plants.

The other strategy, adopted by the big general unions, is based on bringing in to union membership part-time workers – mainly women – and workers in low paid and service industries. Initial signs point to a hard slog.

This is not meant as a covert judgement of ultimate failure. For while it is true that the organisation of workers in these sectors will be difficult – as management becomes more sophisticated, as the benefits of unionisation appear slight, as the numbers of workers in any given location remain small and the workers transient, and thus hard to bring together by union organisers, still, they remain low paid and often in need of the kind of services unions can offer.

Finally, we have discussed only the position of unions in the advanced countries. In the newly-industrialising countries, their position is often, at least potentially, one of growth rather than decline – as industries spring up which demand a skilled labour force, and workers flood in to industrial work from rural areas, in many cases looking to unions to give them a sense of identity.

In some of these countries, too – South Korea and South Africa are very different cases in point – unions intersect with a struggle for democracy and representation, and often gain support (though at the risk of factionalism) by being identified with a broader social movement than their own.

The great labour movements of the world first came into being as organised centres of which governments had to take account some 100 years ago (though unions themselves,of course, are much older).

In the last part of the 20th century, their future is neither wholly assured or uniformly bleak – but, in the advanced countries at least, their future health will depend on a more rapid adaptation to industrial and social change than they have had to make since the war.

A dock gate incident in London in 1951. The disappearance of labour intensive industries and the shrinking of vast plants has dealt a serious blow to union organisation throughout the advanced world

ADVERTISING

Long battle for respectability

Feona McEwan charts the industry's growth

FEW INDUSTRIES arouse passions in the way that advertising does. Since the early 19th century, when people began on a large scale to spread persuasive messages for commercial gain and attempted to change social behaviour, advertising has grown up with controversy at its side.

Down the years it has been alternately vilified as a pernicious influence on society, lauded as a fuel of the economy, dismissed as irrelevant and a waster of resources, held up as a symbol of freedom, revered as a great entertainer.

Today, though the debate on the exact nature of the influence of advertising will run and run, the industry is widely accepted as a valid force in democratic society. Few would argue with accepted marketing wisdom that advertising (now a substantial £5bn industry in the UK) has a vital role to play in the success of products and companies. Yet it is an industry that has had to prove itself every inch of the way.

Inquiring minds, from Macaulay and Carlisle to A A Milne, C S Lewis and J K Galbraith, have questioned its morality and ethics.

In one of the most revealing insights into Adland, *Advertising Inside Out* (W H Allen, 1977), Philip Kleinman sums up the main charges laid at the industry's door. These include: being economically wasteful, acting as a spur to rising prices, encouraging excessive materialism, being spiritually vulgar, and vulgarising and exploiting human weakness in an unacceptable way.

The debate is not new. Long before the First World War, one Chiozza Money MP, put the case for the prosecution. He called advertising "a most conspicuous waste in distribution and one of the most unnecessary trades...from a national point of view, these people are wasting their time. It may be added that when they are pursuing the sale of patent medicines, whiskies and complexion creams they are doing something worse than waste time."

The ad industry put it differently. One leading advertising manager of the day wrote: "When you buy branded and advertised goods, you receive better value for money than you could possibly buy in any other way. Wares which are not advertised sell so slowly that the increased cost of production and marketing makes it necessary to sell them quality for quality at a higher price. Buyers of unadvertised goods pay for the advertising of those which are advertised."

Much of the criticism was deserved in the early days. During the industry's formative years, from the mid-1850s onwards, when limits were stretched and boundaries established, abuse of practice was inevitably common. It was the day of the medical quack who promised to cure baldness, end asthma and dispose of double chins.

Many advertising claims related to problems that medical science had never heard of. Wrights Coal Tar soap boasted that it could cure "skin constipation". Non-medical claims, too, were fanciful. One toffee brand was advertised as "a delightful concord of sugar, full cream milk and fresh Irish butter – three fine body-building foods".

It was also the day of the trickster who persuaded home-based ladies to help copy out sermons and stitch some needlework for the church on condition of payment first. Then there were the bogus traders and criminals whose goods failed to materialise once gullible readers had handed over their money.

Public outrage ran high against the opportunist, albeit minority, element that gave the industry a bad name. There was an outcry, for instance, in Edinburgh in 1897, when the Bovril company threatened to adorn the facade of a prominent building overlooking Princes Street with illuminated signs. And again when Quaker Oats erected a prominent sign over Dover Cliffs.

The First World War was a landmark in the evolution of advertising in the UK, not least because of the interest shown by the Government. In a move that was to foreshadow the current position of government as one of the nation's largest single advertisers, the War Cabinet called in advertising

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experts to help it oo such matters as army recruitmeot and the War Loan effort.

This interest from the State prompted the industry to recognise the need to be taken seriously, so that it set about forming a representative body which later became the Institute of Practitioners in Advertising (IPA). Terry Nevett charts the industry's development in his admirably comprehensive book *Advertising in Britain, a History*.(Heinemann, 1982).

Meanwhile, advertisers were weeded out. Luxury goods and German goods and manufacturers disappeared from view, as did railway companies' advertising (unnecessary travel was discouraged). Department stores, military outfitters, cigarettes and soap manufacturers and the motor industry, however, continued to advertise. West End theatres offering a respite from the pressures of war, and "safe holidays" in the south and west of the country were also publicised.

The inter-war years saw a flurry of advertising, as it became the "people business" that it is known as today. National expenditure grew from an estimated £31m in 1920 to £57m in 1928. It was a time of colourful personalities and considerable creative flair.

An interesting trend during the wars was the banding together of advertisers for publicity purposes who financed their campaign on a co-operative basis. Nevett reports that "advertising appeared for a variety of products, likely and otherwise, with the public being exhorted to buy British cars, to eat more fish and fruit, to smoke imported Havana cigars, dress themselves in Harris tweed, warm themselves by coal fires, protect their woodwork with white lead, retreat behind British wire netting and send friends British Christmas cards."

Long before other industries, advertising was offering women equal opportunities. In 1924, Viscountess Rhondda commented: "It is just about the one profession in which women have equal chance with men. At one time advertisers did not care to deal with women, but that prejudice has disappeared."

At this time, advertising decisions were still made largely on guesswork and instinct. Research came to the fore in the mid-1920s with an increased emphasis on the careful planning of campaigns and market research which took place before any advertising was conceived.

The Second World War promoted advertising to the front line in visibility terms. Nevett notes three main roles that advertising played at this time:

□ Major advertisers, such as producers of biscuits, fireworks, soft drinks, cars and tyres, attempted to keep their names in front of the public, though their goods were not necessarily available.

□ The Government spent enormous sums on communicating essential information, trying to regulate public behaviour and boosting morale.

From the First World War to Aids, Government has recognised the power and importance of advertising

□ And classified advertising (especially births, deaths and marriages in the local press) helped to boost community links.

Not surprisingly the tone of advertising changed. Utility was in, hard sell out. The emphasis was on performance and economy – for example, "Viyella socks that do not shrink, save more coupons than you think."

Patriotic symbolism abounded. There was the stalwart British housewife exhorting her men to go to war, the caricature of Hitler urging young men to join up. Again it was the State that dominated the advertising stage.

Between 1940 and 1945, government advertising expenditure totalled some £9.5m. People were told about ration books and identity cards, gas fornication avoided.

But the war was to have a long-term debilitating effect on British industry. While American companies were advancing their understanding of marketing and devising sophisticated programmes, British companies, which faced a seller's rather than a buyer's market, had none.

So when the American companies landed in the UK in the 1950s, bringing with them hot competition, British companies

The 19th century soapmakers were among the first to realise the power of branding - they had noticed how effective medical advertising could be

were sorely disadvantaged. Habits acquired during the war, when companies had treated each other like old friends, had killed the competitive spirit.

With the end of food controls came expansion again for the industry, old consumerism took root. Full employment and economic prosperity increased consumer choice, and advertising had to reassess its role. Previously its job had been primarily to bring a product to the public's attention and leave the retailer to do the rest; now, with the advent of self-service and multiple stores, it had to take on the complete communication task and sell the product too.

In the post-war years internationalisation among companies took off, as they sought economies of scale; and with the takeovers and mergers that followed, the advertising industry won new supporters.

Since 1945, the most significant event in advertising has undoubtedly been the advent of commercial television, oow the most powerful and intrusive mass medium of them all. Nowadays, when people comment on advertising, they are usually talking about TV commercials. And with television has come some of the most imaginative, amusing advertising around, begetting a bevy of production talent that has created a number of successful feature film directors.

But the creative history of advertising is another story. Today, the role of advertising is as complex as it has ever been. In the vulnerable business climate of the 1980s it has assumed a new importance to companies who need to shore up their defences against predators. The need to support brands and keep audiences informed of company activities has never been greater.

Nor are consumer goods alone in depending on advertising for their survival. Increasingly it is social issues (road safety, anti-drugs,the AIDS campaign), so-called "social marketing", that looks to advertising for a voice. In this respect, one of the major players in the advertising field, as it has been since the First World War and will probably continue to be, is State.

LABOUR SAVING DEVICES

Essential luxuries

Sheila Black looks at key inventions

IT IS LITTLE more than hundred years ago, in 1881, that the people of Godalming, in Surrey, saw their streets lit up. The power came from the River Wey via a waterwheel and generating station. Records show that the lighted main street cost £95 a year, some £15 less than gas light. Not only was £15 being saved but history was being made.

Nobody dreamed of the far-reaching effects of the day when a switch could draw pure, safe power from many miles away to heat or light our lamps and to power our labour-saving appliances. Experiments on magnetism and various odd forms of electricity had gone on for more than 200 years; but Godalming in 1881 was the catalyst for Britain.

There is no doubt that we owe our saved labours largely to electricity. True, a non-electrical, moisture-extracting wringer came on to the laundry scene more than 300 years ago; but its successor, the wooden-rollers mangle, reached us as late as the middle of the last century. Its successor, the electrical spin dryer, was first introduced in 1927 but did not find popular favour until the late 1950s or early 1960s.

Much earlier, H. Cecil Booth invented the idea of sucking air through a cloth that trapped and held dust and dirt, a first version of the vacuum cleaner. He mounted these contraptions on horse-drawn carts, parked outside the window and fed the big hose inside to draw out the dirt, often the centre of attraction for delighted guests at decorous tea parties.

The domestic, personal vacuum cleaner was a wonder of the post-war era. Developed before the first world war, it grew to popularity fast between about 1919 and the mid 1920s. Charles Colston, who worked for, had faith in and bought the UK rights to Hoover, was ridiculed by many including his mother who refused to believe that anyone would pay 19 guineas for that contraption when a broom could be bought for 19 pence.

In the top paper, advertisements for housemaids and other staff began to add the magnetic phrase "Hoover Kept". But there was also a tremendous social upheaval. Colston would recall that he sold more vacuum cleaners to council homes where many incomes were clubbed together for the capital outlay to keep clean a home where everyone went out to work and spent few hours in the house.

It was the beginning of luxury appliances for the poor and it taught Colston that The Times failed to sell his wares while the Daily Express, Mirror and women's magazines did.

New council homes were electrified by the mid '20s, and most builders were installing electricity in new houses while the rich were having their older homes converted.

The cost was falling. To light one bulb for one room for a year was, in 1931, costing less than 10 shillings a year as against £10 at the turn of the century. The cost of installing a simple lighting system was about £5 or £7. By 1935, 54 per cent of homes were wired. In 1955,that had risen to 1955 and to 100 per cent in 1985. Best selling appliances have mostly been irons, fires, kettles and, top of all, vacuum cleaners though, more recently, blankets, power DIY tools, hair dryers, lawn mowers, radios and such have taken over.

The refrigerator, the freezer, washing and drying machines, cosmetic, gardening and DIY appliances are now so much taken for granted that we are, almost, hardly even grateful for their existence. Yet it is only about 50 years that the advertisements read "Don't kill your wife with Work. Let Electricity do it". How to treat electric shock was another message preached in the advertisement, alongside ads for electric mousetraps.

The history of excellent developments is littered with gimmicks such as detachable moustache guards, self-pouring teapots, more teamaking machines than one might ever imagine, stale toast crispers, and - though now advertised as "new" - even the time reflectors that beam the clock's face on to the ceiling.

In an odd way, we work harder than our forbears, who settled for standards and lifestyles of which we would be intolerant today. We may not sweat and toil as we ply our appliances but we decorate, launder, garden and clean home to much higher standards and far more frequently.

Curiously, we strive less to keep up with the Joneses, mainly because there is such a wealth of choice of appliances.

We have become decisive shoppers, making our own decisions without looking over the fence at the neighbours. We are price-conscious, brand conscious and conscious of much else while once we were almost entirely class-conscious.

Nobody would deny that one of the greatest labour-saving boons of this century has been the invention and development of easy-care fabrics. Though the electric iron is in virtually 100 per cent of homes, the non-iron, drip-dry, easy-wash fabrics are the real labour savers. They give us all a classless chic or prettiness, according to our personal tastes. They turn us into wearers of pretty, pale colours that would otherwise be totally impractical. And they ease the lot of mothers to an incredible degree. Women have been much liberated by their machines and have been able to fill time usefully and happily - English Electric called its first automatic washing machine "The Liberator" with that in mind. And are men who use power and gardening tools not delighted by getting the work done in time to enjoy some week-end leisure?

There may have been times during the last century when we risked being the servants of our machines. Now we all enjoy being their masters and mistresses. They seem so effortlessly to do our bidding. They are expensive to maintain and to have repaired. An out-of-work machine convinces us that it is an essential, not a luxury, for we resent doing without it for even a day.

The latest washday techniques being demonstrated alongside the old in the 1920s

THE CONSUMER SOCIETY

The mass market makes its bow worldwide

Today the consumer society is firmly planted around the globe, reports **Christopher Parkes**

IN 1908, when "M&S" was the smart set's name for Marshall & Snelgrove, where a single pair of linen knickers (the fashionable new word for drawers) cost 18s 6d, the contrasting weekly budget of a manual worker's family in a North Yorkshire iron town is illustrated here, on the right.

Meticulously chronicled by Lady Bell in her book, At the Works, this drab catalogue shows a family - by no means atypical - subsisting weekly on 7½ home-made loaves of 4lb each, thinly scraped with butter, 4lb of meat and bacon, weak tea, a quart of milk and no vegetables worth mentioning.

It also indicates that although the 'consumer age' is generally reckoned to have arrived some 50 years or more earlier, its benefits were far from universal.

The only branded product mentioned, Globe polish, Lady Bell tells us, was "a sort of greasy paste used for cleaning brasses." The only other indulgence on the list: tobacco. Gold Dust was the popular name for an exceptionally caustic form of shredded yellow soap notorious for its ability to flay the user's hands.

Luxuries, leisure and notions such as discretionary spending which the world now considers integral to the mass consumer society still lay largely in the narrow preserve of the middle and upper class sectors of society.

She acknowledges in passing, but seems perplexed by one of the real forces behind the development of the consumer age: Mrs A.B., despite her straits, brimmed with self-respect, was developing ideas "above her station," and moving up market.

Lady Bell's subjects' food expenditure, she notes is fractionally above that of "the very lowest, poorest class" of Londoner... "and yet the house looks absolutely clean and bright, and the man, woman and child well turned out...which is a quite amazing result."

Even though life and society were still largely conditioned by Victorian values, under which everyone knew his or her place, 20th century demographics, education, rising wages and the impact of new technologies on transport and communications had set expectations rising.

Influenced by increasing government intervention, society was becoming structured, rather than simply stratified. Status, even the appearance of gentility, could for the first time be earned or bought by the masses.

Chain-driven bicycles with pneumatic tyres had been mass produced since 1900. In 1910, when Herbert Austin was already employing 1,000 at his Longbridge car plant, Henry Ford started European operations at Trafford Park. Four years later there were almost 400,000 motor vehicles on British roads.

The mass production and marketing of consumer products, packed and priced by the manufacturer rather than the wholesaler or retailer was becoming established. From strictly local sales areas, branded products were increasingly advertised in regional and national markets.

This development had been long foreshadowed and vindicated. William Hesketh Lever's soap enterprise at Port Sunlight - the world's biggest soap works also celebrates its centenary this year - offers probably the best documented example.

Some of Sunlight soap's contemporaries, products such as Fry's cocoa, Mackintosh's cream toffee and the Ever Ready torch, were already being successfully marketed and advertised. But it is Lever who must be given most credit for realising the potential of these techniques at saturation levels in national and international markets. Perhaps more important was his ability to brand an ordinary commodity and imbue it with extraordinary qualities.

He admired the pamphlets commonly used to promote pills and patent medicines. "In fact after reading one...one is inclined to think that one had every complaint under the sun," he said in 1909. "We want to have this hypnotic effect with soap. The whole object of advertising is to build a halo round the article."

The halo effect - created with promotional spending at one stage reaching 12.5 per cent of turnover - was not the only intimation of immortality. Monkey Brand soap which boasted of cleaning everything *but* clothes has gone, but dozens of Lever's original brands, like Persil, Sunlight and Lux show every sign of living for ever.

The basic snake oil sales technique, refined by Lever and his contemporaries, has been used in various forms by every generation of industrialist on every new product since.

The development of mass markets - before Lever the average British soap maker boiled up 2,600 tons of soap a year for a strictly local market, compared with Port Sunlight's first year's output of 16,000 tons for national sale - led on between the wars to the massing of companies into conglomerates and multinationals like Unilever and Nestle, Dunlop and Courtaulds.

Equally significant in the longer-term was to be the spread of the multiple retailer from regional clumps to national chains. People still goggle st today's shop opening rates, but more than 1,000 new chain stores appeared in Britain between the wars. Marks and Spencer alone opened 130 in the first four years of the 1930s.

Marshall & Snelgrove was still implanted in the capital and spa towns, but Marks and Spencer, Woolworths, Liptons and Sainsbury's were household names almost nationwide. New outlets gave manufacturers new opportunities which they exploited with a will and massive advertising budgets.

Cheaper branded foodstuffs from the new conglomerates, canned fruit, and early convenience foods like cornflakes became established regulars on every shopping list.

George Orwell groaned. In a country where, he reckoned, 20m people were still underfed, the working class was being "plundered" by consumer goods companies and fobbed off with cheap luxuries - he included fish and chips, silk stockings, canned salmon, strong tea and the football pools - to divert them from revolutionary thoughts.

Few paid any attention. Industry was gripped by the notion, yet to be disproved, that the population could be perausded to buy anything. New products proliferated, and although the Second World War and rationing inevitably caused a blip in the charts, the pace quickened again in the late 1950s as new technologies and production techniques spread. Former luxury packaged goods were established as staples, while 40 per cent of Britons still lacked a plumbed-in bath and almost a tenth had no lavatory either inside or outside the house.

THE GREEDY SOAP TRUST.

In 1906, soap was still a luxury in most British homes. Fleet Street newspapers attacked "the greedy" soap-makers - encouraged by US President Theodore Roosevelt's trust-busting activities. Lever Brothers bore the brunt of the attacks, drawing some consolation from libel damages of around £90,000 - although William Lever later admitted the affair cost him well over £500,000.

The cycle moved on and television sets, family cars, washing machines, central heating became commonplace. Prices fell in real terms. In 1955 a 14in TV set cost £170 (at 1975 prices). By 1975 a 20in set could be had for £70.

Ball point pens were made to be thrown away. Fabrics were non-iron. Food became heat-and-serve. Spare time was no longer scarce, and package holidays took off, broadening horizons further and developing new foreign tastes for manufacturers to exploit.

The consumer age was consolidating. Following the US example, and ahead of most other industrialised countries, British society was becoming more or less homogeneous. Already blorred, many class and cultural divides were erased. In the broadest terms, the best of everything was available to everyone.

Markets, which at the turn of the century could take 30 years or more to reach saturation, are now maturing in a decade or less. Tantalising innovations pile one on top of another. Formal product groupings overlap in the battle to win the consumer's attention and discretionary pounds. For example, the introduction of the microwave oven recently disrupted and slowed the boom in video recorder sales. Jeans compete with pork pies in supermarkets.

One result is a generally simultaneous maturing of consumer markets in many industrialised countries which has led to the evolution of two late 20th century phenomena: domestic segmentation and the search for the global truth.

Whether it is a creation of the market research industry is not yet clear, but consumers are decreasingly viewed as a homogeneous mass and increasingly as individuals with specific tastes and needs. Modern marketing measures - vague notions like self-image and life style - hsve little in common with the old standards of class and earning power.

Old people - "the greys" - no longer seen as the fag end of society, are insistently courted as potential big spenders on holidays, home comforts and frozen high-fibre, plsted, ready-to-microwave nourishment.

"Baby boomers" - fruits of the post-war birth bulge are maturing and preparing to enter a period of unprecedented wealth as they inherit their property-owning parents' homes and savings.

Peculiar sub-groups abound, each reputedly demanding particular attention. Despite the jokes and the atmosphere of evanescence surrounding yuppies, young fogies and dinkies, their emergence offers some evidence to support the Henley Centre for Forecasting's contention that people no longer want to keep up with the Jones's...rather they want to keep away from them.

A recent British study by advertising agents Ogilvy & Mather suggests that the emergence of new consumers demanding that their distinct, personal requirements are met stems partly from the decline of collectivism - typified by the loss of trades union membership and power. The emergence of individualism, it says, is also being encouraged by a 'survival of the fittest' mentality.

This, in turn, is reinforced, the study claims, by a breakdown in the credibility of sources of external authority. Over half the country, O&M's poll of 2,000 people showed, does not trust the Prime Minister. Fewer than 20 per cent trust newspapers.

While manufacturers and advertising companies puzzle over the consequences of these shifts, they struggle with what seems to be the most intractable problem they have ever faced.

There is no common market for many products, even in the industrialised world. US food processors, for example, have been powerful in Britain and parts of Scandinavia for most of this century, but they have yet to transplant their culinary culture elsewhere in Europe. Cultural barriers remain. Despite the alarming growth of urban French appetites for fast food, national and regional tastes and preparation methods dominate. They have little enough in common with West German habits, let alone those of Michigan.

Cross-border mergers in the food industry, apart from the historic moves which built companies like Nestle and Unilever, have so far been timid in their ambition and modest in their success.

Europe has at least four of the main requirements for successful marketing: a largely urban population, good communications and distribution facilities, and relative wealth and political stability.

The developing world as a whole has none of these. It is short of foreign exchange, and the negative factors of barriers to trade - including the xenophobia and lack of a common culture and language which afflict Euromarketeers - are multiplied a thousandfold in the world beyond.

Yet optimism remains high that the impasse can be broken. There have been signs enough to prove that aspiration to the "better" things in life is universal.

There are 500 advertising agencies plugging away in India - speaking 14 major languages and innumerable dialects - compared with 200 five years ago. Almost 10 per cent of homes in the USSR are said to have refrigerator (built on redundant Italian plant). Thais smoke one western cigarette a day on average as an evening treat.

Companies with the edge appear to be those which have taken out long-term investments in consumer product manufacture in the third world and are prepared to wait until markets grow up around them while the sctivities of emergent indigenous industries help nourish the roots of consumer society.

Those which choose to wait for msrkets to grow before moving in may have to wait far longer than they expect. By then the opportunities will hsve shrunk and the world itself will be a far smaller place.

Family budget in 1908
Income 18s 6d family of three

	s.	d.
Rent	5	6
Coals	2	4
Insurance	0	7
Clothing	1	0
Meat	1	6
1 stone flour	1	5
Quarter stone bread meal	0	4½
1 lb butter	1	1
Half lb lard	0	2½
1 lb bacon	0	9
4 lb sugar	0	8
Half lb tea	0	9
Yeast	0	1
Milk	0	3
1 box Globe polish	0	1
1 lb soap	0	3
1 packet Gold Dust	0	1
3 oz tobacco	0	9
Half stone potatoes	0	3
Onions	0	1
Matches	0	1
Lamp oil	0	2
Debt	0	3
Total	18	6

THE TRANSISTOR'S IMPACT

Key invention

David Fishlock tells how the transistor paved the way for the ubiquitous microchip

THE TINY TRANSISTOR, first disclosed to the world 40 years ago this year, is probably the most pervasive invention since the wheel. It has made itself an indispensable part of our personal effects and leisure activities, and of the domestic, commercial, industrial and military life of the developed world.

In 40 years the ubiquitous chip, the minuscule engine driven by the transistor, has grown into an industry with sales of about $32bn last year.

Three scientists - two theoreticians and an experimentalist - with Bell Telephone Laboratories on Murray Hill, south of New York, shared the 1956 Nobel prize for physics for discovering the "transistor effect."

The trio's employer, then and still one of the world's great centres of engineering physics, was seeking an alternative to the vacuum tube (thermionic valve), basis of all electronics before the transistor. As Bell Labs, research arm of AT&T, saw the future, the valve would be too clumsy and unreliable a component on which to base electronic systems of the complexity envisaged as World War Two approached. But the war postponed its efforts to find an alternative.

After a two-year search, John Bardeen and Walter Brattain discovered the "point contact" transistor in December 1947, and demonstrated that they could amplify telephone signals on December 23. Their scientific paper establishing their claim acknowledged the help of their boss, William Shockley. In January 1948 Bill Shockley invented the "junction transistor", the semiconducting sandwich which dominates the technology today.

These discoveries stayed secret for seven months, however, until July 1948, by when Bell Labs had made patent applications. Brattain knew that at least one US university was hot on the trail, for it had sought his advice.

Then, in New York AT&T wheeled out an 8-ft. model transistor to explain to the world what a remarable discovery its trio had made. To its chagrin the world was unimpressed. Worse was to follow, for the company's own manufacturing arm Western Electric had great difficulty putting transistors into production. Not until 1952 did the device begin to appear in the US telephone system.

The first transistorised hearing aids followed in 1953, and the first transistor radio in 1954, but both were too costly. Transistors cost eight times the price of valves.

London-born Bill Shockley, a theoretical physicist, led the small "solid-state" group Bell had set up in mid-1945. He was then 35, trained in the US at Caltech and MIT. He had been with Bell Labs since 1936 and had attempted unsuccessfully to make a solid-state version of the triode valve as early as 1939. For two years of the war he directed a US Navy laboratory wrestling with submarine detection.

In 1945, Bill Shockley's group included Walter Brattain, an experimental physicist, then 43, with whom he had worked pre-war and who also worked on submarine detection. Shockley also hired John Bardeen, another theoretician, aged 37, from the US Naval Ordnance Laboratory.

Shockley has been described by Bernd Matthias, another eminent Bell physicist, as "the quickest physicist I ever knew at the first two stages of a problem. He was very good at breaking down problems to their bare essentials and doing things with, what one might call, Gaullic simplicity or clarity."

He spent nearly 30 years with Bell labs, until 1965, when he set up his own transistor research laboratory at the age of 55.

Under company rules all three scientists had assigned their transistor patents to AT&T for $1 apiece. In 1956, under an anti-trust consent decree, Ma Bell waived all further rights to her remarkable invention.

Pause for thought: Professor Einstein, who was doing advanced studies at Oxford in May, 1932, is seen here resting in Christ Church meadows. In 1917 he had invented the General Theory of Relativity. What matters, he once said, is only what we can observe. He died in 1955.

SCIENCE

The beginning of modern science

Einstein has a strong claim to be considered as Man of the Century, writes **John Maddox**

THE YEAR 1888 was just about the beginning of modern science. The dust was beginning to settle after the great argument between Darwin and his critics about the evolution of species that became the cornerstone of what is now biology.

In many ways even more significant, James Clerk Maxwell had just constructed his great synthesis of the Newton-like theories of electricity and magnetism derived from the efforts of the previous century.

Neither Maxwell nor his contemporaries appreciated how subversive was his theory of electromagnetism. Two decades went by while his Cambridge colleagues and competitors (they thought of themselves as his betters) did their best to reconcile Maxwell's explanation of the phenomenon of light with Newton's paradigm of what the physical world is like.

Only H.A.Lorentz, of Leiden, appears (at about exactly the time of this anniversary) to have understood the implications of Maxwell's work. The others did their best to "save the appearences" (Newton's phrase) by endless elaborations of the doctrine of the luminiferous aether.

It fell to Einstein (in 1905) finally to blow up that fanciful edifice. Before then, the seeds of the revolution of 1905 had been thickly scattered. Roentgen (at Wurtzburg) discovered X-rays in 1895. Becquerel (who had graduated only in 1888) set fashionable Paris chattering when he discovered radioactivity a year later. In 1897, J.J.Thompson found proof of the existence of independent particles of electricity, called electrons, at the Cavendish Laboratory at Cambridge.

The questions - How does this fit in with Newton? - were coming more thickly than the answers. Einstein may not have made the physical world a simpler place, but he made it possible for it to be intelligible. It is surely significant that, when the Financial Times began, there was nothing that could be called a scientific profession. There were engineers, it is true, organised into powerful engineering institutions for ever seeking to magnify and share the kudos of their nearly contemporary heroes - the Stephensons and Brunel - and an army of entrepreneurial cranks pressing dazzling inventions on the fag-end of the nineteenth century, buoyant after the long recession of the 1870s.

Some of these succeeded; Remington (who mass-produced guns, helping Singer to mass-produce sewing-machines), the Wright brothers (who invented flight) and Marconi. But science was still taught at Cambridge as Natural Philosophy. In 1888, *Nature* was sustained by a vigorous correspondence about the faculty of hares for swimming.

What has happened since could not have been foretold or even guessed at. Even by the turn of the century, people did not properly appreciate the enormity of the revolution that lay just a few years ahead. Josiah Willard Gibbs at Yale University in the US may already have embarked on his still unsurpassed account of the usefulness of energy, but the universities had not yet begun to teach the Periodic Table devised by the St. Petersburg Russian, Mendeleev, acknowledged as important by the Royal Society of London only in 1882. (Will that be a part of Mr Kenneth Baker's national curriculum? If not, there will be yet another generation of British entrepreneurs who do not know why gallium arsenide is the same as silicon, but in some ways better.)

The year 1905 was when the revolution broke and Einstein was the single-handed revolutionary. Too little time has passed, even then, for us to be able to understand how greatly he has changed the way we think. By himself, without the benefit of research assistants and post-doctoral research fellows, he made three enduring claims on our attention: even space and time are relative, not absolute; light comes in little packets of energy (called quanta, as in quantum mechanics); and the interaction between radiation (light for example) and matter is such that matter prone to radiate light of one colour will be stimulated by light of that same colour to emit more of it (which is the basis of the invention called the laser, delayed by more than half a century).

Charles Darwin: plenty of fierce critics

Einstein was evidently an unusually clever person. That he invented (in 1917) the General Theory of Relativity, sufficient in itself for a run-of-the-mill genius's life-work and now the framework within which all cosmologists seek explanations for the world we live in, is a kudos of extra. That towards his death (in 1955) he shrank from the full implications of his radicalism is neither here nor there. Did not even great Galileo recant towards the end, to the general dismay?

A dozen years from now, at the end of the century, they will be saying that he has a better claim to it than, say, F.D.R. or even V.I.Lenin. What Einstein has done is to make logical positivists of us all. What matters, he said at the beginning, is only what we can observe. (Ernst Mach, the Moravian whose name is commemorated in the unit invented the year the FT began and still used to refer to the speed of ultrasonic objects such as aircraft, was Einstein's philosophical lodestar in this connection.)

From this derives modern science's opinion of its goals that particularly maddens politicians: there is no such thing as absolute truth, only different degrees of uncertainty (or of falsifiability). You can see how this works in a host of different ways. Did the Universe begin with a big bang? (The first readers of the FT could have had no means of knowing that there are countless, or at least still-uncounted, objects called galaxies each much like that to which the sun belongs, and so would not have been tempted to ask the question.)

Ask any reputable scientist you meet at dinner and he or she will mutter something about working hypotheses about which only specialists are qualified to pronounce. Ask about environmental risks, and you are as likely to be asked to ask somebody else.

Even so, the revolution that Einstein set in train has become a continuing upheaval. By the 1920s, one aspect of uncertainty, the physical impossibility of learning about a microscopic particle exactly, was made formal in the doctrine of quantum mechanics; from that, paradoxically, has sprung a much more certain understanding of how atoms and molecules are constructed than anybody could have hoped for earlier as well as the theories by which adventurous people now seek literally to explain why matter is what we know it to be as well.

The construction of the electronic devices on which we now depend rests on the same foundation. Early readers of the FT, no doubt imbued with the Victorians' confidence in their ability to calculate the physical world, would nevertheless be surprised to learn that we are fast approaching the time when biological systems will also be calculable.

The discovery in 1953 of the chemical structure of the genetic material DNA has made that possible; the infant biotechnology business has already shown how it is possible to simulate what happens in living cells to make novel drugs and vaccines, but the full benefits in medicine and agriculture lie still over the horizon (although it is worth remembering that the plague of AIDS would have been a much greater threat to all of us without today's understanding of how DNA works).

The programme of deliberate social change founded on scientific understanding which is implicit in that declaration is of course constrained. There are some who do not fancy the idea that the world we live in should be manipulated, and blame scientists for arrogance. Others point out (but with incautious gloomy zeal) that change always brings unexpected problems; one of the dangers for the years ahead is that what is called environmental concern will be too powerfully institutionalised by ernments.

But the most likely cause of failure to win the full benefits from even present understanding is what it has been for the past twenty years - the crying shortage of people skilled enough to win them. Sadly, Britain has become a special case. The chief consequence of the past two decades of parsimony and mismanagement in the public support of science has been to magnify self-doubt, undermining the British scientific community's confidence in its capacity to solve the practical problems that confront its sponsors.

Is it not a shame that a community whose predecessors contributed powerfully to the revolution of the past century should now be in awe of what happens elsewhere, notably in Japan and the US, where the cookie has crumbled differently?

□ *The writer is editor of Nature magazine.*

MEDICINE

Century of discovery

Virus infections represent one of medicine's most serious remaining challenges, says David Fishlock, Science Editor

IT HAS BEEN A remarkable century for medical science, the science which interests the greatest number of people and which leaves very few in the developed world untouched in their lifetime. The three most profound influences on progress in medical science all began about a century ago.

The first was control of infection, which began with recognition by the French scientist Louis Pasteur that infection was caused by a transmissible organism. Pasteur found ways of attentuating or weakening such organisms so that they could be used safely to build a defence against such deadly infections as cholera, anthrax and rabies.

His work opened a line of scientific thinking which led to the first-ever Nobel Prize for medicine, awarded in 1901, going to Emil von Behring, the German army doctor who in 1890 had discovered serum therapy. He demonstrated its effitacy for diphtheria, with dramatic effects on the death rate in children. Von Behring's own mentor, Robert Koch, was himself rewarded in 1905 for his identification in 1882 of the organism which transmitted tuberculosis.

As the present century unfolded, the trail led to the discovery of sulphonamides (solpha drugs) by Gerhard Domagk in Germany, which opened the way for modern chemotherapy starting with penicillin in 1942, streptomycin (1943) and chloramphenicol (1949). Chemotherapy can control all the major bacterial infections of our time: rhenmatic fever, puerperal fever, septicaemia, pneumonia, typhoid and TB.

In the second half of ths century, chemotherapy has also had dramatic consequences for many non-infectious diseases including heart disorders and failure, mental disorders and peptic ulcers.

The second profound influence on modern medicine is "imaging", which enables the doctor to see with his own eyes what is wrong right inside his patient without sxacerhating the patient's distress. In 1895 William Rontgen, a German physics professor, showed how his "invisible rays" could penetrate living tissues to reveal the bones starkly against their enveloping flesh. He, too, was awarded one of the first Nobel prizes in 1901, for physics.

Rontgen's rays illuminated a trail which led to nuclear physics and nuclear medicine. Becquerel and the Curies shared the Nobel physics prize in 1903 for their work on radioactivity, which was to maks the name Amersham famous worldwide for its radiochemicals for locating and identifying disease.

The year 1970 saw a dramatic advance in the technology of imaging, comparable with Rontgen's original X-ray discovery, when Godfrey Hounsfield invented computerised tomography (CT) acanning. He applied microminiaturised computing to radiography in order to reconstruct X-ray images of organs and tissues even when they are shielded by bone, as in the case of the brain or the spinal cord. So fast is the computation, CT images can even allow the doctor to view disfunction in a moving organ, such as the beating heart.

Barely had the medical profession begun to evaluate the opportunities for better diagnosis of illness opened by X-ray scanning when, in the mid-1970s, the first fuzzy images of nuclear magnetic resonance (NMR) imaging began to appear. NMR takes signals emitted by hydrogen atoms - common to all living tissue - and reconstructs them by computer into anatomical images the doctor can readily understand.

The incentive driving NMR hard in competition with X-ray scanning was absence of any "invisible ray" and possible long-term harm for the patient. The fuzziness quickly gave way to images as sharp as in CT scanning, and a plethora of new information which a US committee of medical experts summarised in 1987 as "an extraordinary addition to our diagnostic armamentarium". The armamentarium is still expanding, with positron emission cameras - byproduct of particle physics - among the latest methods of imaging.

The third profound influence on modern medicine has been an understanding of the biochemistry of the body, developed over the past 100 years. It began when scientists first recognised that the living body was making identifiable chemicals - hormones, for instance.

Late in the last century two physiologists, William Bayliss and Ernest Starling, strove to explain how the stomach knew just when to release digestive juices. They indentified a "chemical messenger" which they called a hormone, from the Greek meaning "rouse to activity". It was the first of many to be discovered as vital agents of a myriad automatic functions the body performs.

This biochemical trail led to the demonstration by the Canadians Banting and Best in 1921 that a hormone called insulin is the missing ingredient in the disease diabetes, and that it can be administered to regain control of the flow of glucose into the bloodstream.

In 1910 the German biochemist Albrecht Kossel won the Nobel prize for medicine for explaining the chemical construction of the living cell, reward for his work on nucleic acid chemistry over the previous two decades. In Britain, Alexander (now Lord) Todd unravelled the chemistry of the chromosomes; while Oswald Avery and his colleagues in the US showed the compound deoxyribo-nucleic acid (DNA) to be the key to heredity.

In 1953, the Anglo-US team of Crick and Watson in Cambridge proposed the double-helix model for the way nucleic acids are organised in DNA, thereby earning the Nobel prize for medicine in 1962. By then, the science had acquired a new name – molecular biology.

By the mid-1970s molecular biology was sufficiently advanced to permit primitive modification of genes - "genetic engineering". With astonishing

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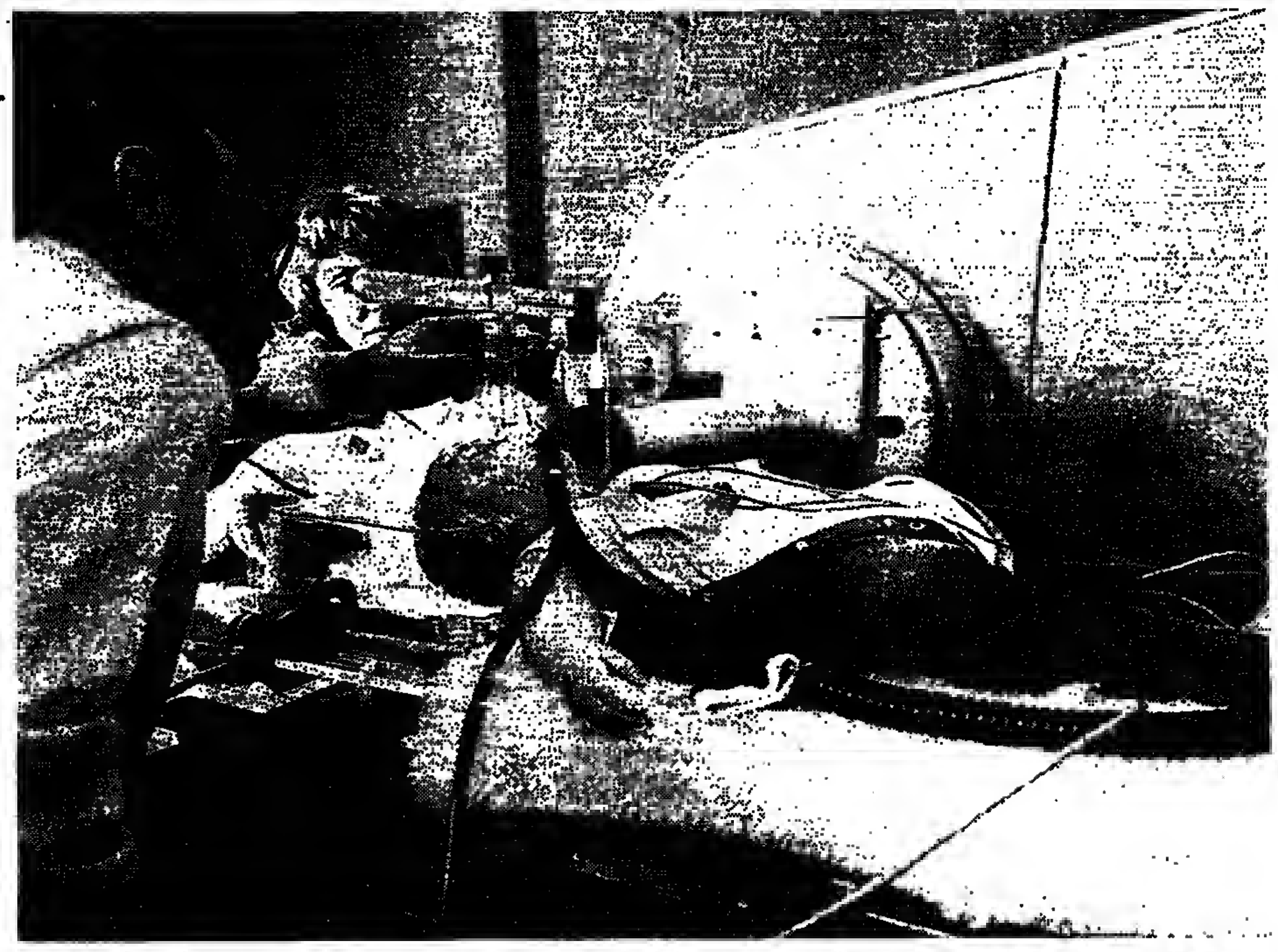


In the US, a child undergoes a brain scan on advanced medical equipment from General Electric's Research and Development Centre at Schenectady, New York.

A SCIENTIFIC PIONEER

Professor became a star writer

Profile of Francis Simon, a key figure in wartime research and the FT's first science correspondent

AT THE AGE OF 56, Francis Simon became the first scientific correspondent of the FT. An Oxford don, he was already one of the world's great thermodynamicists, a fellow of the Royal Society, later to be knighted and to head the Clarendon Laboratory, Oxford's department of physics.

Professor Simon wrote for the paper for over eight years. Moreover, a newspaper which was largely anonymous, sometimes bylined its star: Professor Sir Francis Simon, CBE, FRS.

Simon, a key figure in the wartime research into atomic energy, was recruited by Hargreaves Parkinson, who as editor in April 1948 somewhat diffidently solicited the scientist's comments on two staff-written features on the economics of atomic energy.

Professor Simon: the don who came to Fleet Street

"You may, I'm afraid, find them a little naive..." he said, and went on to say how greatly he welcomed the opportunity of "having someone with your knowledge and authority to help us in a field which I am convinced has very great possibilities".

The great man's response was that the articles were "not at all bad, considering."

Simon's first contribution was accompanied by a plea: "Please don't be too hard on me, it is my first attempt at journalism." The article, entitled "Why waste coal? - By our scientific correspondent," appeared on June 2, 1948. It argued that the open domestic fire should be abandoned in favour of a simple closed stove, which the writer believed could be mass-produced by post-war Britain for "only a few pounds each", and would have the additional advantage of making homes warmer.

Later that year the editor was urging his scientific correspondent in Oxford to write not only long features but shorter, newsy items and "keep us primed" on the doings of science. He was praised for submitting "exactly on the lines I had in mind."

In November 1948, Simon invited his editor to an evening discourse at the Royal Institution in Mayfair, where he would be speaking on science. The editor asked if he might send a reporter. Simon said yes, with the caveat that, "I only hope that it will not look as if Prof Simon is guilty of plagiarism at the expense of the Scientific Correspondent of the Financial Times."

A few days later Simon was chiding the FT for forecasting in a motor industry supplement that gas turbine buses and cars might be on the streets in two years. "It seems very doubtful indeed whether the gas turbine has desirable characteristics as a motor car driving unit." This is no less true 40 years on.

Parkinson was clearly enjoying what was becoming a personal relationship with a witty and urbane as well as erudite contributor. In December he wrote, quoting from the poet Cowper: "...from your gifts to draw a plea - and ask you for still more."

But later that month he was wondering whether the depth of knowledge his correspondent had displayed in a farsighted pair of features on atomic energy - the second accompanied by a first leader - might not land him in jail. Simon reassured him with private feedback from some of the leaders of the still very secret British programme.

In his first atomic feature Simon had concluded that atomic power "may prove very useful for some types of specialised projects" - propelling ocean liners was one. But he was doubtful whether it would ever contribute appreciably to power generation: "This will certainly not happen within the next 50 years or so," he wrote.

If atomic power were ever to provide an appreciable part of the world's power consumption, the very tricky matter of radioactive waste disposal "would be a most serious problem," he forecast. Simon was much more optimistic about other applications including its uses as a research tool and for medical treatment.

He concluded that, on balance, and given "present standards of international morality" the dangers outweighed the advantages and "we would be happier without it." But any notion of stopping the clock for 50 years in atomic physics, as some were then proposing, "to allow political morals to catch up with the progress of science" was unrealistic. As early as 1948 the damage had already been done.

The friendly correspondence, albeit always conducted in formal terms - Professor Simon and Mr Parkinson - continued until late in 1949 when the editor retired, handing over his scientific correspondent to Gordon Newton, for whom he wrote for another six years.

□ Our thanks to Prof. Nicholas Kurti, FRS, and the Royal Society for access to the late Sir Francis Simon's papers.

D.F.

AVIATION

From balloons to Concorde

Regular air travel through the upper atmosphere is now being investigated, says **Michael Donne**

AVIATION OVER the past hundred years has moved from the man-carrying hot-air balloons of the 1880s through to the Concorde supersonic airliner of today.

But already, the frontiers of flight are being pushed even further forward with research into the concept of Earth-to-Orbit "Aerospace Planes" or "Transatmospheric Vehicles" (TAVs), such as Britain's Hotol horizontal take-off and landing aircraft, which may materialise around the turn of the century.

In 1896, the eminent Victorian physicist Lord Kelvin, in a letter to Major B F S Baden-Powell rejecting an invitation to join the Aeronautical Society of Great Britain (it became the Royal Aeronautical Society later), declared: "I have not the smallest molecule of faith in aerial navigation, other than ballooning, or of expectation of good results from any of the trials we hear of" - a not uncommon attitude of mind among his contemporaries.

Today, over one billion passengers fly every year in comfort and a high level of safety on scheduled airline services throughout the world, an illustration of how wrong even those of the highest scientific reputation can be when forecasting the future.

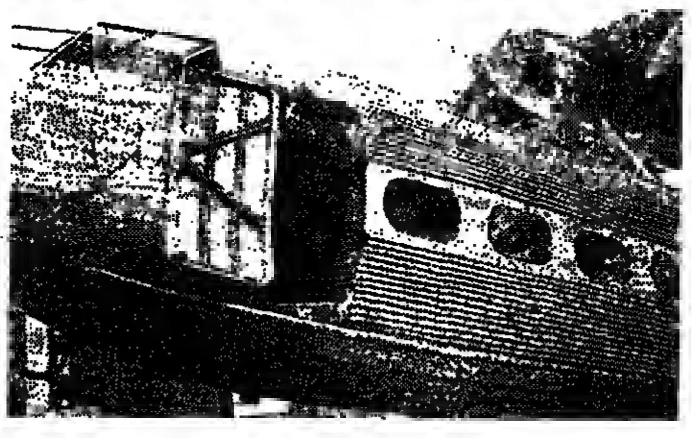
Even by the late 1880s, when the FT itself was born, aviation in Britain had already been given limited official recognition, when hot-air balloons were used by the British Army in the Sudan in 1885, and also to observe the annual Army manoeuvres at Aldershot in 1889.

Over the past hundred years, there have been many epoch-making events in world aviation. Probably the two most famous, and certainly the most far-reaching in their impact, were the first powered, sustained and controlled flight in a heavier-than-air machine, by Orville and Wilbur Wright on the sand dunes at Kill Devil Hills, near Kitty Hawk on the North Carolina coast on December 17 1903, and the first test-bed run of the turbo-jet engine invented by Frank Whittle, in the British-Thomson-Houston factory at Rugby, on April 12, 1937.

Only thirty-four years separated those two events, but in that time aviation had developed phenomenally, beyond the Wrights' imagination. The First World War had refined aircraft from primitive contraptions into lethal fighting machines, while the post-war period had seen the birth of civil air transport.

By the time Whittle, a serving RAF officer, was conducting his early jet-engine experiments in 1937, the big flying-boats built by Short Brothers in Rochester, and flown by Imperial Airways (the forerunner of British Overseas Airways Corporation which in turn became British Airways), were linking the farthest parts of the British Empire with England, and experimental transatlantic passenger flights were about to start between Southampton, Foynes (Ireland), Botwood (Newfoundland), Montreal and New York.

The Second World War continued the dramatic technological expansion of aviation. In



The first jet airliner, Britain's ill-fated Comet (top); a giant of its day, a Handley Page 38 passenger airliner at its trial flight in 1930; and pioneer aviator Sir Geoffrey de Havilland.

Britain alone, aircraft manufacture reached a peak of over 26,000 a year by 1944, employing nearly 2m people, and Whittle's jet engine was improved and manufactured by Rolls-Royce to power the first British jet fighter, the Gloster Meteor.

After the War, the late 1940s saw the rebirth of civilian air travel, and dramatic breakthroughs with the world's first gas-turbine powered airliners, the British turbo-propeller Vickers Viscount, which first flew in 1948, entering service in 1953, and the de Havilland Comet turbo-jet, which first flew in 1949, entering service in 1952.

But although the Viscount was a massive success, with nearly 450 aircraft sold (still the highest total for any British airliner, with many still flying today), the Comet tragically failed. Two accidents over the Mediterranean in 1954 were discovered subsequently to have been caused by metal fatigue leading to explosive cabin decompression. The Air Certificate was withdrawn, the fleet grounded, and valuable sales cancelled.

Even though the Comet was substantially redesigned, and eventually went back into passenger service in 1958, the delay had proved too great: the concept of the gas-turbine aero-engine had swept on through the world's aerospace industries. Where the UK had led, others followed, especially in the US with the highly successful Boeing 707 and Douglas DC-8 which both emerged in the late 1950s.

Today, more than 7,300 commercial jet airliners of all kinds are in operational service in the Western world, some 80 per cent of them of US manufacture, with another 1,700 turbo-propeller airliners also.

Moreover, it is estimated that between now and the end of the century, some $222bn will be spent by the world's airlines buying some 5,000 additional jet airliners of all kinds, of which $150bn will be for growth and $72bn to replace existing ageing aircraft.

Allowing for the retirement of ageing airliners, the world jet fleet by the end of this century is expected to have expanded to around 9,500 aircraft.

As a measure of how far aviation has come, the distance of 120 feet that the Wright Brothers achieved in their first flight of 12 seconds over the Carolina sand-dunes on that December day in 1903 (later the same day they made three more, longer flights) could be performed today inside the 231 feet 10 inches of the passenger cabin of one Boeing 747 Jumbo jet airliner.

The Wrights' aeroplane weighed only 605 pounds, plus pilot. The heaviest Jumbo jet now available, the 747-300, fully loaded with over 400 passengers and fuel for a long-distance flight of nearly 6,000 miles non-stop from London to Tokyo weighs at take-off over 833,000 pounds, with an even heavier version, the 747-400, on the way.

One of the most dramatic of the advances in world civil aviation in the post-Second World War period has been the introduction of supersonic transport, in the shape of the Anglo-French Concorde, capable of carrying up to 100 passengers at speeds of more than twice that of sound (Mach 2, or over 1,200 mph).

The Concorde entered service in January, 1976 - seventy-three years after the Wright Brothers' epochal flight - with a regularly scheduled service between London and Bahrain, with Air France also starting services from Paris to Rio de Janeiro via Dakar. British Airways' services to Washington began in May, 1976, and to New York in November, 1977. There were also originally BA services to Singapore and to Dallas/Fort Worth, but those have been discontinued.

Today, BA's Concorde flights link London with New York, Washington and Miami, and those by Air France link Paris and New York.

Despite the original hostility directed at supersonic flying because of noise and pollution, Concorde has subsequently proved acceptable at all the airports it serves regularly. The fastest supersonic Concorde scheduled crossing to date was from New York to London in 2 hours 56 minutes, by British Airways, on January 1, 1983.

Also, both British Airways and Air France have developed substantial charter operations, which ironically take the Concorde frequently into destinations where it was originally banned because of noise.

Today, more than ten years after it began to earn its living, more than one million passengers have flown on the scheduled North Atlantic Concorde services of British Airways, and if charter passengers are included the total is well over 1m. Concorde still has many years of service life left in it, enough to carry it through to the late 1990s, if not into the next century, although the numbers of aircraft in both the BA and Air France fleets may be reduced as time goes on as aircraft are taken out of service to be cannibalised for spares that cannot now be manufactured, especially engine spares.

But already, research is under way on possible eventual successors to the Concorde. Aerospatiale of France, one of the original Concorde design, development and production partners, has produced preliminary design studies for a second-generation supersonic airliner, an Avion a Grand Vitesse (AGV).

McDonnell Douglas of the US also has studied a possible Hypersonic Commercial Transport, or HSCT, and has suggested the possibility of international collaboration in its development, but again little progress on this plan has been achieved so far.

A more promising approach, however, to the continuation of very high speed flight into the next century is now under way on both sides of the Atlantic through research into what are generically called "Aerospace Planes" or "Transatmospheric Vehicles" (TAVs).

These are aircraft capable of very high (hypersonic) speeds, or more than 3,000 mph (over Mach 5 or five times the speed of sound), capable of taking off from conventional airfield runways, soaring into low-Earth orbit to perform various missions in space, and eventually landing again like conventional aircraft.

Various designs are being considered. In the UK, British Aerospace and Rolls-Royce are studying the Hotol (horizontal take-off and landing) Aerospace Plane concept. A similar concept has emerged in West Germany called the Saenger venture.

But these are low-key studies compared with the current extensive research in the US on the $3.3bn X-30 National Aerospace Plane Project, or NASP, being undertaken by the US aerospace industry in conjunction with the US Air Force, the Department of Defense and the National Aeronautics and Space Administration.

This is similar to Hotol and Saenger, but is much further advanced. Major study contracts on airframe and engine designs, and on new materials and their associated production techniques for such a venture, have been awarded, and current plans envisage two preliminary research vehicles flying as early as 1993.

If satisfactory, a full-scale vehicle will be built for flight later in that decade.

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The Sopwith Schneider Trophy seaplane 1914

AN AVIATION PIONEER

An intrepid survivor

Sir Thomas Sopwith was in at the start of aviation history

"IN THE old days we used to crash a lot but when it was all over we nearly always just stood up, shook the wreckage off, and walked away. Crashing did not seem to hurt because we did it so nicely and slowly. Even spectacular crashes often used to have happy endings ... But bless you it was fun."

The speaker is Sir Thomas Sopwith, pioneer aviator, balloonist and yachtsman, who was born on January 18 in the same year that the FT itself was founded, 1888. The son of an engineer, he wanted to join the Navy, "but they didn't think I was clever enough, and they were probably right," so he was educated as an engineer.

Now celebrating his centenary, he is the last survivor of that small group of aeronautical pioneers who collectively built the UK aerospace industry from nothing in the early years of this century.

Those intrepid men included Robert Blackburn, Geoffrey de Havilland, Frederick Handley-Page, Alliott Verdon-Roe, Charles Stewart Rolls, and the three Short Brothers, Horace, Eustace and Oswald.

Only two of those original pre-First World War aircraft companies survive (after many vicissitudes) and trade today under their original names - Rolls-Royce, founded in 1906 by C S Rolls and Henry Royce as a high quality motor-car manufacturer, only later turning to aero-engines, and Short Brothers, founded in 1908.

Thomas Octave Murdoch Sopwith (he was the eighth child in a family with seven older sisters, hence the name Octave), taught himself to fly manned aeroplanes in 1910, when he was 22, and quickly established himself as a pioneer aviator, setting distance and duration records in Europe and America and making not only a great name but also some money.

The latter he invested in a small company of his own, the Sopwith Aviation Company, which rapidly achieved success

Sir Thomas Sopwith: "Bless you, it was fun!"

by winning the second Schneider Trophy contest in 1914, at Monaco with the Sopwith Tabloid, piloted by Howard Pixton.

Sopwith also ran a flying school at Brooklands, and among his early pupils was a soldier, Major Hugh Trenchard of the Scots Fusiliers, known as "Boom" because of his voice. Trenchard asked Sopwith to teach him to fly in 10 days ("because after that I'm too old") and thus scraped into the Royal Flying Corps before he was 40, eventually rising to high rank and becoming the founding father of the Royal Air Force.

International recognition and financial success came to Sopwith during the First World War, with such famous fighters as the "Pup" and the "Camel". During the war, Sopwith's company and its associates built 11,237 aircraft of his design for the British air forces and another 5,000 for the allies, and by the end was employing over 5,000 workers itself, apart from those employed by sub-contractors.

But the severe post-war rundown led to the liquidation of the Sopwith company, and the formation in its place of a new company, Hawker Engineering, named after Harry Hawker, who was the brilliant chief test pilot for Sopwith before, during and after the war.

It was that company which, having initially built motor cycles as well as aircraft in order to survive, ultimately generated Sopwith's lasting fame, for it produced not only a long line of famous military aircraft - including the Hart, Fury and Hurricane - but also the great Hawker Siddeley Group, created in 1935 to include such other famous names as A V Roe, Sir W G Armstrong Whitworth Aircraft, Gloster Aircraft and Armstrong Siddeley Motors.

The UK aerospace industry - privatised by the present Government after a period of state control - today has sales of over £7bn annually, and a total backlog of orders worth over £20bn.

Sir Thomas Sopwith has lived through all these changes. The shape of the industry has changed radically from the handful of infant struggling companies he remembers from immediately before the First World War, and ways of doing things have been revolutionised.

"In those days, all you had to do was to rough out a scheme on the back of an envelope, show it to those were going to do the job, and they then started right away without needing anything else ... It was all a very different picture to a modern conception which has to go through the fine mesh sieve of the design and stress offices."

But he still believes strongly in the need for a British aerospace industry.

"True, modern aircraft are very expensive and they take a long time. In the First World War, when we thought up a new type, the thing was flying in six weeks. Now it's not flying in six years. It's all got so big, hasn't it? I'm glad I lived when I did. But our fathers and grandfathers have all said that before us."

Medical breakthroughs

Continued from page 19:

speed its practitioners have turned such manipulations into new opportunities for medical diagnosis and therapy through powerful new biotechnology research teams such as Genentech in the US and Celltech in Britain.

The net effect of these three strands of scientific progress - control of infection, imaging, and biochemistry - has been a phenomenal improvement in life expectancy in the developed world, points out Sir Raymond Hoffenberg, who as president of the Royal College of Physicians for the past five years ranks as Britain's top doctor.

Over the century, life expectancy has increased from 48 to 77 years for females, and from 44 to 72 years for males. The most dramatic effect can be found in the statistics of infant mortality, which has declined from 154 deaths per 1,000 births in 1900 to fewer than 10 in 1985.

But scientific progress has not increased the normal lifespan of man beyond the biblical three score years and ten. Instead, diseases of an ageing body - including cancer, arthritis and senile dementia - have gained prominence as more people survive into retirement.

One disturbing trend is the re-emergence of infection as a major health problem. On the one hand there is the problem of virus infections for which medical science has failed to deliver a cure as dramatic as antibiotics for bacterial infections. On the other, there is the re-appearance of infection as a byproduct of progress in medical science, notably of transplant surgery.

Viruses have been controlled most successfully by preventative medicine - immunisation. In 1940, 46,000 cases of diphtheria were reported in England and Wales, and 200 died. Nowadays it is rare and almost only ever found in non-immunised people. In 1955 there were 4,000 cases of paralytic poliomyelitis. Today, British doctors see fewer than 10 cases a year.

But such successes can incubate their own problems for as public fears of a disease fade, those fears seem to refocus elsewhere. Adverse publicity for the remote possibility that a vaccine may have side-effects has discouraged many mothers from immunisation. They ignore statistics which state that the risks of the disease far outweigh even the most pessimistic estimates of encephalitis occurring. As a result, the incidence of measles and whooping cough is rising alarmingly.

"Our failure to exploit the full potential of immunisation - the most clearly beneficial and easily implemented preventative measure - must raise questions about our commitment to preventative medicine in general," says Sir Raymond Hoffenberg.

He is also very despondent about the failure of the developed world to transfer the benefits of medical science to developing countries, where the average life expectancy is still only about 35, and infant mortality is between 100-200 deaths per 1,000 births.

The developed world today indulges in the luxury of intense criticism of medical science for its failure to explain and cure all disease, and to do so free from all side-effects. As a result, many people are turning to so-called "alternative" medical practices. The common and salient feature of such practices is not scientific but simply the much longer time the therapist is able to spend counselling his patient, eight times as long as the GP can afford, it is estimated.

Meanwhile, the problems of the developing world go largely unheeded. For quite trivial amounts of money and effort, several scourges could be eliminated by immunisation as effectively as smallpox was finally eradicated in 1977. This disease succumbed to a campaign mounted by the World Health Organisation - an agency of the United Nations - in mass vaccination.

Will the developed world ever be persuaded to see that it must also be to its own immense advantage to help impoverished nations eradicate the other six great scourges-- diphtheria, measles, polio, tetanus, TB and whooping cough - identified by WHO as amenable to similar programmes of mass vaccination?

There can be no question that progress in explaining the basic nature of AIDS since the disease first appeared in the US in 1981 has been swift because of the basic understanding of biochemistry and molecular biology built up over the past century.

What is also well understood now is how elusive a quarry medical science is pursuing. In 1988 the experts still forecast five years and probably longer before either vaccine or cure is making any real impact on what is an exceptionally lethal epidemic.

صحکذا من الاصل

THE FIRST 100 YEARS

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The US aerospace industry believes that the spin-off from such a vehicle (which would initially have primarily military uses) could be enormous, with a "family" of other vehicles emerging.

One such could be a high altitude hypersonic airliner which could fly across the Pacific Ocean between the US West Coast and either Australasia or the Far East in about three hours, against the twenty hours or so, depending on destination, now taken by subsonic jets.

This "Orient Express" type of airliner would perhaps seat about 200-plus passengers, and would be be much more streamlined and needle-shaped than Concorde, to suit its speed of 3,000 mph or more.

It would meet the already emerging demand in the US for an aircraft that could link the US with the Far East - regarded as the most significant and rapidly developing arenas in world air transport for the remaining years of this century - far more swiftly than anything hitherto, while also being suitable for other long-range global air routes.

While some may regard such ideas as fanciful, in the US Government and aerospace industry they are regarded with extreme seriousness, as evidenced by the multi-million dollar Government contracts already awarded for preliminary research.

If all goes as well as the US aerospace industry hopes, these ideas for Aerospace Planes or TAVs may well come to fruition around the turn of the century, little more than twelve years from now.

In the US, driven by the need to reassert supremacy in aerospace technology after the damaging problems with the Space Shuttle, the political will to achieve such results is there, and the money is also available, while the aerospace industry is keyed up to perform the admittedly complex technological task of turning these ideas into reality.

When one considers how far aerospace has come since the days of the Wright Brothers just eighty-five years ago, and even how much has been achieved in the past forty-odd years since the end of the Second World War, it would unwise for anyone to say that the "Aerospace Plane" concept and its "Orient Express" derivatives will not either emerge, or succeed.

To take such a view would be to emulate the blinkered attitude of Lord Kelvin, in his condemnation of the future of aviation nearly a hundred years ago. The subsequent record has shown how foolish his attitude was, and how soon he was proved wrong!

The first moon landing; Soviet cosmonaut Yuri Romanenka whose Soyuz TM-3 ended a 327-day space mission last year; the European Ariane blasts off from French Guyana and (below) the British contender, Hotol

SPACE

Soviet missionaries in the ascendant

Peter Marsh on the prospects for space exploration in the next century

THE NEXT century for space exploration promises to be tumultuous. By the year 2088, space holidays will probably have become routine and the FT may be printed on Mars.

Nothing illustrates better the accelerating pace of mankind's technological advance than the history of space activities. The Chinese invented the rocket in the 13th century as a projectile to kill people in battles. Almost immediately, some dreamed of how rockets could be used to carry people beyond the Earth's atmosphere into space.

Nonetheless, it took more than 700 years before a powerful Soviet version of the same Chinese invention boosted the first person into orbit in 1961. From this point on, landmarks in space travel have piled up. The first walk in space came in 1965, followed four years later by the first lunar visit.

The 1970s saw the first docking with a space station, several motorised drives by astronauts on the Moon and the first (and so far only) joint manned mission in space by the US and the USSR.

The 1980s have marked the early flights of the first substantially reusable space vehicles, the US space shuttles, and the beginnings of a permanent manned presence beyond the atmosphere by rotating Soviet crews on board a new and improved space station.

Roughly 200 people have entered space, most of them American – thougb the USSR has kept its citizens there for much longer periods, with visits to space stations of months on end being commonplace.

The world has launched about 3,500 satellites, all but 100 or so the property of the two superpowers, for a variety of uses from carrying telephone calls to measuring the heights of mountains.

What is the point of it all? The first reason is exploration. Expanding mankind's frontiers has been the driving force behind the ronghly $500bn (in today's money) that the world has spent on space technology since the 1950s.

Many would go along with the sentiments of G. Edward Pendray, an American rocket enthusiast of half a century ago who wrote in 1947: "There is something about rocket power which transcends the bleakly mechanical aspects of the subject and changes its followers into missionaries...Perhaps... it is the lurking chance that by rocket power we shall actually some day be able to visit and explore worlds other than our own."

Pushing closely behind exploration as a motivation for space developments – some would say this factor should be placed first – is the military dimension. The technology of putting people or objects into space is closely connected with that of launching and directing nuclear missiles.

"There would not yet have been a single astronaut or cosmonant in orbit without the help of rockets initially developed for military purposes," Wernher von Braun, the German-born doyen of the US's rocket engineers, pointed out as far back as 1965.

Another reason for the military dimension is the age-old interest in defence circles in controlling the "high ground," a vantage point from which to observe or prosecote the enemy. John F Kennedy summed it up in 1960, right at the beginning of the space race: "If the Soviets control space, they can control Earth, as in past centuries the natioo that controlled the seas dominated the continents."

Much of the money that today the US and USSR hurl at space technology is spent in the military arena, whether this lies in producing higher-resolution spy satellites to observe troop movements or in attempting to use space as a medium from which to shoot down missiles, as in the US Star Wars programme.

Prestige should be added to the list of motivations. Enhancing the US's reputation was undoubtedly one of the main objectives of the Apollo Moon-landing programme of the 1960s. Apollo unquestionably helped the US in many areas – from matters of foreign policy to achieving foreign orders – although in ways that are impossible to quantify.

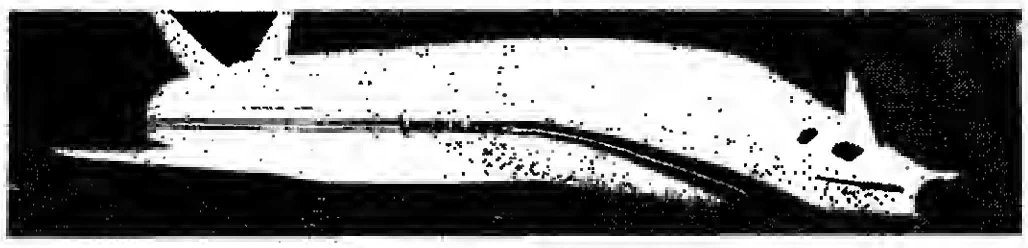
A fourth reason for going into space is to seek purely scientific benefits, such as a better understanding of the other worlds in the solar system. Finally, the idea that space developments are closely tied up with economic and technical benefits is a beguiling one, and one which governments frequently use to justify costly space programmes.

Certainly, projects like Apollo have helped the development of many technologies from microchips to equipment to help cardiac arrests. Communications satellites have developed into an industry with applicability to terrestrial businesses.

But putting forward economic benefits as a reason for going into space is dishonest. In the 1970s, several studies were written in the US and Europe attempting to describe the economic results on Earth from so many dollars spent in space.

Most of the studies were unconvincing, as is sdmitted by Henry Herzfeld, who as chief economist at the US National Aeronautics and Space Administration between 1976 and 1983, was responsible for many of them. "The (commercial) spin-offs do occur," says Herzfeld, "but they may not be where you think and they may take 20 years to show through."

What of the next 100 years in space? The main problem for the West in this area is the US's far from decisive stance on space policy, much of this brought on by the Challenger space shuttle disaster of January 1986.



The main US space scheme for the rest of the century is a big manned orbiting base, due to cost about $30bn and to go ahead with the support of West European nations, Japan and Canada. No one knows how the international involvement will work out or whether the applications planned for the station will ever repay the large cost.

The uncertainty is reinforced by problems over the safety and efficacy of the space shuttle fleet, which will be vital to the success of the station. Shuttles are due to ferry into orbit components for the construction of the base and also to supply it once built. The uncertainties may take a step towards resolution later in 1988, when the shutties are due to fly again after the layoff caused by the Challenger disaster.

With the US unsure about its direction, the balance of power has swung automatically to the Soviet Union, which sppears to be driving forward with a plan to keep its Mir space station permanently occupied, using switched crews. This may help the USSR develop those industrial applications, such as the manufacturing under weightlessness of new, ultra-pure materials, which may emerge from low-gravity research.

The Mir operations will also put the USSR ahead in plans to visit other planets such as Mars by using a base in Earth orbit as a supply site.

On the face of it, Mars is not a particularly attractive place to colonise or even visit. The temperatures are icy; the atmosphere contains not air but noxious gases; and there are savage dust storms. Nonetheless, the propaganda value of going there would be immense. And undoubtedly it would be a good jumping-off point for other missions - perhaps to the asteroids, the rocky fragments that drift around the solar system which appear to contain abundant supplies of valuable metals and other materials.

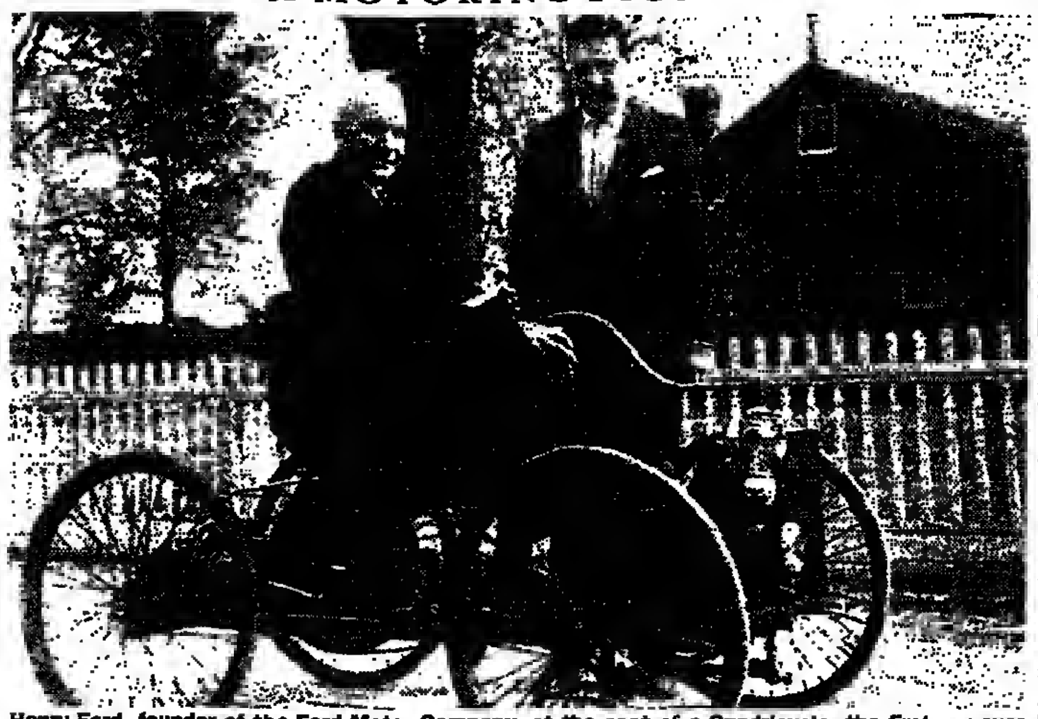
The technology required for a Mars visit would not be particularly difficult. Everything points to a Mars colony established some time in the next 100 years. Like today's Antarctic bases such a colony would be s place for the hardier of the world's citizenry but it would be by no means an impossible place in which to eke out an existence, helped no doubt by the cresture comforts of the 21st century.

There is also the leisure industry aspect to space operations. The world is running out of new and exciting places for people to go on their holidays. Space certainly offers all this; and then there sre the magnificent views. It is easy to picture, rocketing around the solar system in a few decades' time, the equivalents of today's cruise liners.

If space tourism does become an important business, the Russians, or at any rate any Western tour operators smart enough to do deals with them, are likely to be in the lead.

THE FIRST 100 YEARS

A MOTORING PIONEER



Henry Ford, founder of the Ford Motor Company, at the seat of a Quadricycle, the first car ever built, with his grandson Henry Ford II

People's carmaker

Kenneth Gooding on a genius of mass production

HENRY FORD'S place in industrial history is secure. His company was the first to make a car that the ordinary working man could afford, launching a cycle of mass production and mass consumption in the US.

He did so by introducing to his factory in 1913 a moving assembly line, where employees remained at their work stations and the job came to them - the very essence of what would become America's industrial revolution.

Ford introduced the eight-hour working day and a $5 a week minimum wage. In doing so, he played a major part in creating a new kind of society in which people thought as much about their leisure time as their work.

Ford was was born on a farm near Dearborn, Michigan, in 1863, the son of an Irish carpenter who who emigrated to the US after the potato famine.

He loved to tinker with machinery from an early age and became one of many talented men in the late 19th century attempting to produce automobiles.

He put his first car on the road in 1896 when he was 33 and sold it for $200, His first company was not a success but in 1904, at the age of 40, he joined in partnership with a coal merchant, Alexander Malcolmson, to set up Ford Motor Company. When Malcolmson eventually aold out to Henry Ford in 1919 he collected $29m.

Ford's fortune was made by the Model T, a simple, durable car launched in 1908. Ford's idea was that it should be a car that a farmer could use and, more importantly, afford. It should also be a machine the owner could easily fix if something went wrong.

Ford adopted the techniques of Frederick Winslow Taylor, the first authority on scientific industrial management who brought time and motion studies to the steel and other industries.

The Model T was so successful – at times dealera were asked not to take orders because there was no more capacity – that Ford could concentrate on his factory.

In 1908 he hired an industrial efficiency expert, Walter Flanders, who convinced Ford he needed more space to set out production in a line ao each incremental improvement on the line speeded up production and cut costs.

'The aim was to break each function down into much smaller units so that each could be mechanised and speeded up and eventually flow into a straight-line production of little pieces becoming steadily larger.

In 1913 Ford first used the technique for magneto production. This was divided into 29 different operations divided between 29 different workers. Production time was cut from 20 tu 13 minutes for each magneto.

Once the moving assembly line was introduced the same year, the time taken to build each car was cut by half to five hours 50 minutes and within weeks to two hours 38 minutes. Further innovations had the time down to an hour and a half by January 1914.

As production speeded up the price of the Model T came down – from $780 in 1910 to $360 by 1913-14.

In his recent book, *The Reckoning*, contrasting the Ford and Nissan car companies, author David Halberstam deacribes Henry Ford as "a genius of mass production who loved his factory more than his car.

"He spared no expense to modernise his plant but resisted virtually every attempt to change the Model T until he and the car were overtaken by younger, more entrepreneurial, competitors making better cars. Only then did he relent".

Ford also held on to the reins of power at his company for far too long and it was left to his grandson, Henry Ford II, to rebuild the company after the founder's death in 1947 to its position today as the world's second-largest automotive company.

THE CAR

The invention that changed society

John Griffiths looks at the evolution of car manufacture worldwide

IT TOOK, AS FAR as archaeologists and historians can work out, about 58 centuries for the two basic concepts to come together.

Somewhere around 4000 BC, in the region of what is now known as the West Bank, a cry which was the Sumerian equivalent of *Eureka!* is presumed to have gone up, announcing the birth of the wheel.

On January 29th, 1886, just two years before the Financial Times made its debut, Karl Benz registered at the Imperial Patents Office in Berlin his three-wheeled vehicle with gas-powered engine.

Thus, at a four-stroke, was born an industry which would go on to become the world's single largest in manufacturing terms, currently accounting by OECD estimates for about one-seventh of total world trade - and, ultimately, the traffic jam.

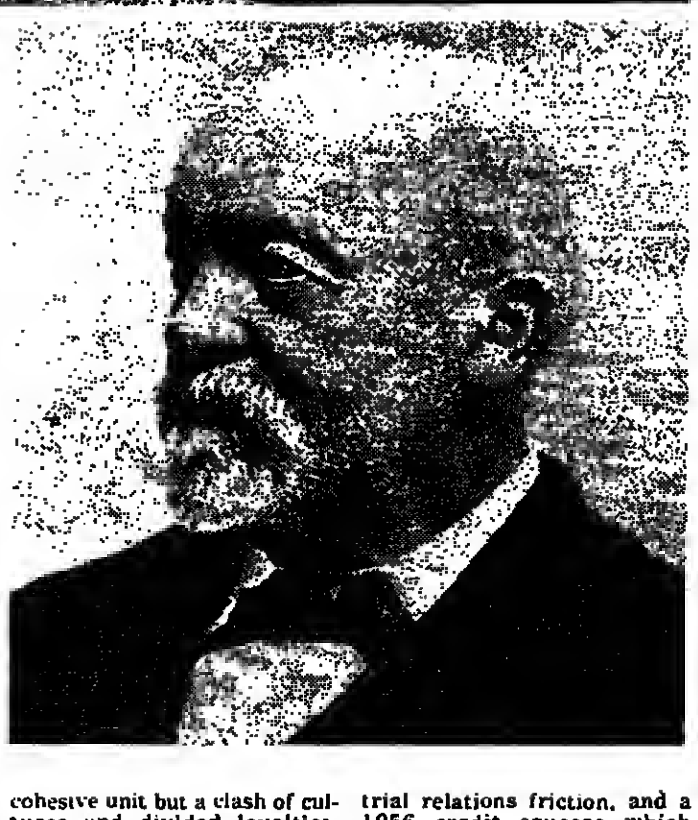
Yet, initially, the world, and the Germans in particular, regarded the car as a curiosity rather than an invention capable of practical applications.

In the first years of the industry it was left to the French, and North Americans, to make most of the running.

Even so, until several years after the turn of the century, car-making was essentially a metal-bashing cottage industry, wherever it was located. Vertical integration was almost complete, even if mention of the term itself, and others, like economies of scale, would have had most company car bosses of the time diving for their dictionaries.

In 1903, there were already some 100 companies making cars in the US, although it was a constantly changing population. Thus no-one was about to get too excited when on June 16, 1903 an individual called Henry Ford started his third attempt to join the motor industry by launching Ford Motor Company with paid-up capital of $28,000. What Ford set in train at his tiny workshop at 58 Bagley Avenue, Detroit (after he had taken an axe to the door so he could get his first ever car, the Quadricycle out) has shaped the course of the industry ever since.

The fast-changing production technology which is currently transforming the industries of Japan, Europe and North America, to the extent that 'lights out' manufacturing of virtually entire cars by the end of the century is no longer inconceivable, is in reality only the logical extension of the production concepts first set out by Henry Ford I.



The Volkswagen Beetle: eventually to take over from the Ford Model T as the world's best selling car, and (right) German motoring pioneer, Gottlieb Daimler.

He defined mass production as, "the focussing upon a manufacturing system of the principles of power, accuracy, economy, system, continuity, speed and repetition".

In the light of computing power and flexible manufacturing systems, he would probably have sought alternatives for the last term.

But the principles translated into practice at Ford's Highland Park plant as the making of standardised, interchangeable parts, machined to close tolerances and brought together on the moving assembly line.

It is sometimes overlooked just how devastatingly successful Ford's formula of using mass production to lower prices (four times in three years at one stage) to hitherto undreamt-of levels proved to be. More than 15m Model Ts were sold between 1908 and 1927, when it was discontinued. This was a record for a single model which would remain unbroken until nearly 50 years later by Volkswagen's Beetle.

By the mid-1920s the Model T was estimated to be accounting for 50 per cent of all world registrations, even if most of them were in America.

Europe's industry evolved over its early period in somewhat different fashion. An altogether more elitist business, in terms of customers no less than companies, for a long while it regarded labour as being too cheap to merit heavy capital investment.

Yet, it was Ford, once again, which was primarily responsible for dramatic change in Europe, and first of all in Britain. A decision to assemble in the UK, at a plant in Manchester, led to Ford accounting for 29 per cent of 1914's total UK car production of 25,000 units.

The between-wars period produced a fundamental change in the US-European relationship, with the US now a creditor, not debtor nation. Citroen and Renault began to emulate the US production methods being adopted also by General Motors on its own route to becoming the world's largest producer of vehicles.

Indicative of the fact that there is little really new under the sun, Italy's emerging motor industry nearly included Ford as a producer in 1930. But in a highly-charged climate of nationalism and tariff barriers, the dictator Mussolini banned a stand-alone presence by the US producer - and suggested a Fiat-Ford link instead, with no more fruitful an outcome than the merger talks which would take place some 56 years later.

Not until the end of the Second World War, however, would the world's motor industry start down the path leading to its structure today.

In its immediate aftermath the French government drew up a five-year plan for its own industry, that of Germany started digging itself out of the ashes, and the plethora of companies producing cars in the UK, not least Morris Motors which had its origins in a bicycle shop opened by William Morris in the early 1890s, cranked up production once more on the basis of pre-war models.

Morris had continued to make cars on a very small scale at its Cowley plant throughout the war but it was not until 1948 that an entirely new model, the Morris Minor, was introduced - another 'classic' which would continue in production until 1971 and the first of the all-British cars, other than the multinationals, designed to take real advantage of mass production methods.

By 1952, however, cost and other pressures had already begun to emerge which would start the long process of mergers within the indigenous UK industry designed to keep it in competition with the multinationals. In 1952 Morris merged with Austin Motors to create the British Motor Corporation.

It did not produce a larger, cohesive unit but a clash of cultures and divided loyalties. Prior to the merger, the autocratic William Morris had long maintained fierce opposition to unions, publicly offering to send their leaders on all-expenses paid visits to the Soviet Union provided the tickets were one-way.

Leonard Lord, managing director of the new BMC, was, nevertheless, bullish about prospects and, in the short term, had reason to be.

Despite intermittent industrial relations friction, and a 1956 credit squeeze which knocked output down that year too by 40 per cent, production of the UK car industry, including the now well-entrenched multinationals Ford and GM, rose from 860,000 units in 1957 to reach 1.4m in 1959. The UK was Europe's clear industry leader.

Almost overnight, however, British producers were once again thrown into disarray at the start of 1960 by further use of the industry as an economic regulator - a factor which, in one form or another, was to dog it throughout the post-war period to the end of the 1970s.

Again production fell by 40 per cent, inevitably provoking yet more strains within work forces.

Meanwhile, in Japan, Nissan and its fellow producers were starting to build on the initial impetus to Japan's motor industry provided, ironically, by Austin's generous granting of a licence to Nissan to assemble the Austin Chummy under licence.

Although UK production continued to rise, albeit erratically, through most of the 1960s to reach a peak of 1.92m in 1972, some saw the 1960a as the start of a decline destined to last until 1982.

Models were slow to be replaced, and often had a poor reception in terms of design and assembly quality. Endless disputes arose at BMC's plants, as well as those Ford, GM and the increasingly troubled Rootes group, over piecework pay systems and other issues even as BMW, Mercedes and Volkswagen were atarting to massage the West German induatry into a shape which would eventually make it Europe's strongest.

BMC was still making profits, but only just. By 1968, VW had also overtaken it in sales terms, with rvenue of £2.5bn compared with BMC's £1.9bn.

Fiercer competition, an increasing inability to invest adequately and labour disputes led to the Government pushing BMC into a merger with truck and bus group, Leyland, that year in the hope, forlorn as it turned out, that their combined resources would improve things.

By 1974 British Leyland was bankrupt. Nationalisation followed under an unprecedented public spotlight, with the subsequent 1976 Ryder Report recommending linkage of further government investment to the group's performance.

BL's, now Rover Group's, more recent history is still etched strongly in most Britons' minds: the arrival of Sir Michael Edwardes as chairman; his battle to restore what he viewed as the 'management's right to manage'; an intended product-led revival based heavily on collaboration with Honda of Japan.

Sir Michael could claim, with some justification, that the combination of high UK inflation and the petro-powered strength of sterling to a level totally unjustified by the non-oil economy were the real culprits which thwarted his attempt to take Austin Rover in particular back into sustained profits.

But the jury is still out as it is on current chairman Mr Graham Day's own efforts to take Austin Rover, finally, into both profitability and the private sector.

Pre World War II Advertisement

TELECOMMUNICATIONS

A dramatic transformation of the terrain

Old notions have been swept away by modern technological developments says **Guy de Jonquieres**

TO THE INDUSTRIAL historian, telecommunications presents an unusual paradox. In one sense, it is a very new industry: generating and fed by advances at the frontiers of technology, it is re-shaping established concepts of time and space at a speed unimaginable only a decade or so ago – so fast indeed that it sometimes threatens to out-run man's ability to comprehend and control its potential.

The microchip, the computer, the satellite and the optical fibre circuit have endowed telecommunications with an awesome capacity not only to transmit information across distances but to process and manipulate it in a seemingly limitless variety of forms. Vaulting across geographical and sectoral boundaries, it is blurring the lines between once separate economic activities and challenging the frontiers of sovereign political authority.

The globalisation of financial markets and the removal of barriers to new entrants into them, the internationalisation of broadcasting and printed media, and the increased mobility of business enterprises and their production facilities all testify to the power of telecommunications to sweep away traditional rules and alter drastically the terrain of the playing field.

Yet, for all this breathless progress, telecommunications is also a very old industry. Its origins date back at least to the invention of the telegraph in the 1830s, a period when Britain's industrial revolution was at its height. Large parts of it, and many of the people who work in it, are still deeply imprinted with traditions, attitudes and institutional structures built up over generations.

Indeed, the force of the upheavals which have racked the industry in recent years is in part attributable directly to the tensions inherent in this ambivalence. Even in those countries which have opted to liberalise their national industries, telecommunications as a public service, long enshrined in rigidly regulated monopoly, remains an uneasy bedfellow with telecommunications as a happy hunting ground for the free-spirited innovator and iconoclastic entrepreneur.

Unlike the computing industry, with which it is now colliding, the history of telecommunications has for the most part been one of institutions, not of individuals. Whereas buccaneering upstarts have intervened regularly over the years to change the direction of the computer business, telecommunications developed over a long period in almost every country as the province of monolithic organisations possessing near-sovereign powers. If generations of Americans knew their telephone company affectionately as Ma Bell, it was perhaps partly to remind themselves that behind the bland and impersonal exterior of that vast bureaucracy there lurked a human presence.

Of, course, in the early days, telecommunications had its share of popular folk heroes and folk tales. Alexander Graham Bell, with his memorable telephonic injunction, "Mr Watson, come here, I want you!", Almon Strowger, the Kansas City undertaker who invented the automatic telephone exchange, and Guglielmo Marconi, who sent the first radio signal crackling across the Atlantic.

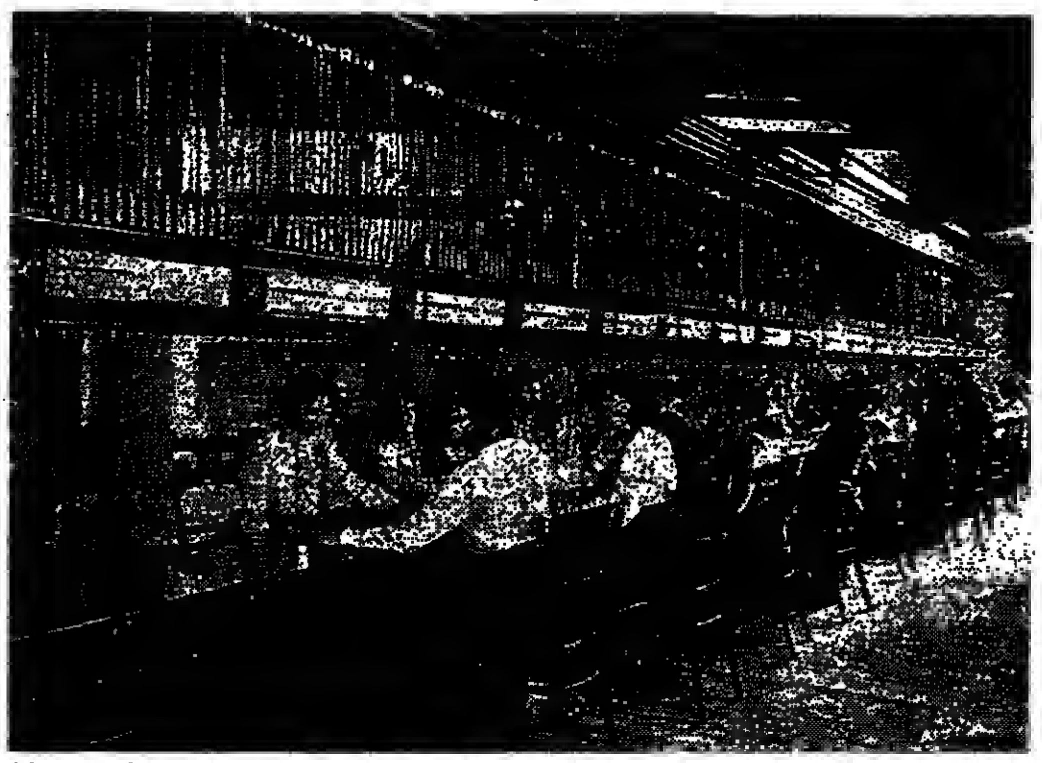
However, even before Queen Victoria left the throne, the structure of the telecommunications industry had begun to mutate towards a system of national monopolies. By the 1930s, the process was complete in most countries of the world. Gradually, the pioneering spirit gave way to the ethos of the civil servant and the administrator; the driving force behind the industry's development became the territorial expansion of telephone service, not the haphazard impact of technical invention - though of course inventions continued to be made.

There was an irrefutable logic to this change. The value of a telecommunications network is a direct function of the number of subscribers it serves: the more people use it, the more people want to use it. Competing networks, vying with each other for territorial superiority and using incompatible technology, were not equipped to further that objective. Monopoly structures, with the powers to impose standardisation and optimise network design and investment, and the freedom to cross-subsidise operations in such a way as to make service affordable by large numbers of new subscribers, were judged to offer the most effective way forward.

In return for their freedom from disruptive market pressures, the monopoly telephone companies were required to shoulder social responsibilities. Their compact with national governments obliged them to offer a universal service, available to everyone everywhere on similar terms.

These arrangements served their purpose remarkably well. National telephone networks steadily expanded their reach, pulling in more and more customers and progressively imposing themselves as an essential part of national infrastructures, binding together disparate and physically distant elements of society into a tighter and more cohesive whole.

For the first half of this century, telephony remained primarily a domestic phenomenon. It was not until the 1930s that technology - in the form of a more powerful repeater valve used on undersea cables - made possible inter-continental telephone calls. When they first arrived, they were also prohibitively expensive for the ordinary subscriber. When the London-New York telephone link was introduced in 1937, the service was priced at £15 for three minutes - the equivalent of about £350 today.



"Number, please" - rows of telephonists taking calls on the first multiple switchboard at the old Glasgow central exchange in 1888.

Long-distance international telephony did not begin to take off in a big way until after the launch of the first telecommunications satellites in the 1960s. Suddenly, a new dimension was added to the telecommunications world. By escaping the capacity restrictions inherent in undersea cables - which were slow and costly to lay - satellites ushered in a new era of mass communications. And as the transmission capacity of each generation of satellites grew by leaps and bounds, calling costs to the subscriber came tumbling down.

For the telephone operators and their subscribers, it all seemed part of the forward march of progress. Yet, in another sense, satellites also marked the fading of a long era of steady and stable development - and the early warning signals of turbulent change to come.

For the satellite revolution also introduced two radically new notions into the telecommunications business. First, by removing previous restrictions on capacity, it called into question the economics of telecommunications as a supply-driven industry, in which the monopolies acted as licensed custodians of a scarce resource. Secondly, it showed that technology was capable potentially of reducing dramatically the barriers to entry into telecommunications, hitherto kept high by the immense investment required to build a terrestrial network.

As it happened, the implied opportunities were first exploited in practice on land when, in the late 1960s, a small US company named Microwave Communications (MCI) applied for and won permission to operate a telephone link via microwave radio between St Louis and Chicago in direct competition with American Telephone and Telegraph.

By dint of a succession of legal battles, MCI succeeded in enlarging that initial breakthrough from a pinprick into a gaping hole in the flanks of the AT&T monopoly. A decade later, it had convinced the Federal Communications Commission (FCC) and the courts to authorise it to operate a fully-fledged, nationwide long-distance telephone service in competition with AT&T. Others followed in its wake, including GTE, ITT and International Business Machines.

While these events were happening, technology was brewing up an even bigger surprise, in the form of the digital revolution. The advent of the tiny microchip turned conventional telecommunications technology upside down. Suddenly, it became possible to replace conventional electro-mechanical systems, which transmitted telephone signals as a succession of analogue sound waves, with more reliable and versatile electronic components which functioned on the same principle as computers.

The change was not limited to the machines themselves. By enabling voice, data, images and video all to be transmitted in the same electronic form and augmented by the application of computer software, digital systems opened up a dazzling range of opportunities to supply 'intelligent' services across the telephone network.

These developments, however, begged a major question: where did computing end and telecommunications begin? In the US, where the two businesses had traditionally been strictly separated by regulation, the FCC agonised interminably over the issue. Finally, in 1980, it gave up an unequal struggle and declared that the distinction had become meaningless.

That ruling opened the doors for computer and telecommunications companies to enter each others' territory. However, to take advantage of this new freedom, AT&T was required to pay an exceptionally high price. As part of a complex settlement of a government anti-trust case, it agreed to divest itself of its 22 operating subsidiaries, thereby dismantling the structure of monopoly whose legal status had already been severely dented by deregulation.

From the US, radical reform of telecommunications spread rapidly to Britain, which liberalised its market in 1981 and partially privatised British Telecom in 1984, and to Japan, which relaxed its domestic telecommunications monopoly in 1985.

In other parts of the world, these moves were initially regarded with amazement and disapproval. Nowhere more so than in western Europe, where state-owned telecommunications monopolies had increasingly come to be regarded as national technological bastions, uniquely equipped to resist marauding incursions by powerful American and Japanese electronics companies.

Surprisingly rapidly, however, the mood has changed. In many European countries, the power of the monopolies has come to be seen less as a force for technical and social progress and more as a barrier to innovation. With telephone penetration nearing saturation and customers clamouring for an ever wider range of choice, the basic rationale of the monopoly system has been called into question.

Adding further pressure have been the upheavals racking the telecommunications manufacturing industry. The close relationship which bound monopolies to a group of traditional suppliers in each country has been coming under heavy strain. Manufacturers have found it increasingly difficult to recoup the soaring costs of developing electronic equipment from sales purely to their home markets, while the need for more competitive procurement and a wider variety of products have led their monopoly customers to enlarge their circle of suppliers.

As a consequence, a massive wave of restructuring is taking place in the manufacturing sector, as companies increasingly resort to alliances, mergers and acquisitions both within their own countries and across borders. A fierce commercial battle is under way as companies strive to achieve the international economies of scale imperative to their longer-term survival.

By comparison, developments in the provision of telecommunications services in most of continental Europe have looked decidedly placid. Though liberalisation is on the agenda both at the national and EEC level, it would extend only to the equipment attached to telephone systems and the services offered on them. No continental European country is currently considering opening its basic network to competition.

Scotland's first satellite earth station, used for North Sea oil platform communications.

Hence, the telecommunications world appears to be dividing into two camps. Those like the US, Britain, and Japan, who have enthusiastically embraced the principle of thorough-going reform; and the rest, who favour a gradualist approach stopping well short of an outright attack on the fundamental touchstone of monopoly power.

Yet how real are these distinctions? Advocates of radical liberalisation would argue that attempts to maintain tightring-fences around monopolies are doomed to failure and can only distort the market. Technology, they insist, is undermining the technical and legal bases of such barriers and throwing open all areas of telecommunications to new competition.

Yet in those countries which have pushed liberalisation furthest, telecommunications is still far from a free-for-all. In the US, the break-up of AT&T's Bell System has arguably resulted in the transformation of a large national monopoly into a series of local monopolies. In the long-distance market, the FCC has found it necessary to intervene repeatedly to keep the market open to AT&T's competitors.

In the UK, where liberalisation was widely viewed at first as a highly controversial and politically contentious move, the government has been widely criticised recently for subjecting British Telecom to too little competition, not too much. In many wsys, its detractors claim, it is still behaving like an inefficient and unresponsive monopoly. In Japan, meanwhile, the vast Nippon Telegraph and Telephone shows little sign of ceding much of its hold over its traditional markets.

For policymakers and economists, these anomalies and contrasts raise many intriguing questions. Can free and open competition really be achieved in telecommunications and sustained over the longer-term? Or is monopoly a natural state which will inevitably re-assert itself? Or, alternatively, will the economics and structure of the industry oscillate between these two poles?

It may well be the next century before we have answers. But judging by the recent extraordinary speed of developments in telecommunications, the industry may well have been transformed yet again by a further cycle of dramatic change.

THE COMPUTER

A brainpower race

Alan Cane looks at the hopes held out for artifical intelligence

HEADLINES which announced the first generation of digital computers in the 1950s look quaint to us now with their anthropomorphic references to 'electronic brains'.

Customers for the most complex and expensive business tools ever invented quickly learned that was mostly hyperbole. Their electronic msrvels were, in fact, only as smart as the people who programmed them. Managers were entertained by computers which could, apparently, write poems or sing songs, but despaired of having even simple business application programs written in less than six months. 'Intelligent' machinery did not seem to have much of a role in the work-a-day business of dats processing.

Until the lste 1970s, that is, when what, in retrospect, must be seen as one of the most remsrkable events in the history of computing shook the data processing world.

Japan, through its Informstion Processing Development Center, JIPDEC, announced in 1979 a programme of research to establish fifth generation computer systems, advanced machines which would be based, JIPDEC claimed, on innovative theories and technologies that could offer the advanced functions expected to be required in the 1990s, overcoming the technical limitations inherent in conventional computers.

They would be, JIPDEC went on, "information-processing systems having problem-solving functions of s very high level. In these systems, intelligence will be greatly improved to approach that of a human being"

The Japanese proposals spurred on the modern quest for the "intelligent" machine and, at the same time, revitalised the older debate about the nature of artificial intelligence.

The Japanese were, of course, in no way pioneers in machine intelligence. Researchers in Europe and the US had been carrying out basic research ever since the invention of the digital computer. The expression 'artificial intelligence' itself is generally attributed to the US researcher John McCarthy who used it in 1956.

Progress, however, wss erratic; the computing tools of the day were hardly up to the task. As Vernon Pratt points out (*Thinking Machines*, 1987): "Artificial Intelligence thus slips in unobtrusively. There is no sudden innovation that marks its birth, only a steady growth in the virtuosity with which the new instrument of the computer was played, and a moment when a name that happened to stick was first proposed."

> Despite the promise of electronic marvels yet to come, fears of computers with super human powers seem groundless

Pratt clearly establishes that by 1960, the ground rules for what could be thought of as classical artificial intelligence research had been laid down. It was academic in nature, divorced from business or commercial realities.

James Martin and Adrian Norman, in their influential book *The Computerised Society* (1970) note: "We deliberstely omitted 'artificisl intelligence' techniques from our speculation (on the future uses of the computer in society) as they seem of dubious practicality of yet."

But only a few years later, here were the Japanese claiming that machines with human-like intelligence would be the hand-maidens of industry and commerce in the 1990s and, what was more, they intended to take the lead in making sure that came about.

The effect was electric. In the US, memories of whst the Jspsnese had done to its domestic electronics and semiconductor markets were strong, leading to fears the same would happen in advanced computing. Edward Feigenbaum, s pioneer in artificial intelligence, and Pamels McCorduck, a science writer, published *The Fifth Generation* in 1983 where they complained: "America needs a national plan of action, a kind of space shuttle program for the knowledge systems of the future...We have outlined America's weak, almost non-existent response to this remarkable Japanese challenge. In the trade wars, this may be the crucial challenge."

The UK's avowedly non-interventionist government first set up a committee of inquiry and then established the Alvey programme in sdvanced computer technology, directed towards broadly the same aims as the Japanese Fifth Generation Project. In the European Community, a complementary progrsmme of research was estsblished under the name Esprit.

It was, without doubt, the most audacious piece of sabre rattling in computing history and resulted in millions of dollars of funding for research into very powerful microprocessor and memory chips, advanced computing techniques and sophisticated softwsre approsches. And thst all helped to prepare the technological ground for major advances in artificial intelligence.

The pioneers of computing, after all, were constrained in their ambitions by the technical means available to them. Gottfried Leibniz, Blaise Pascal, Charles Babbage and other early computer scientists were essentially concerned with developing calculating engines. With the technology of the day, whst else was open to them? Babbage probably intended to use steam in the mid-1800s to power his remarkable 'Analytical Engine', but the quality of gear-cutting in his time was not up to creating the hundreds of cogs that, if ever completed, it would hsve used.

Alan Turing, the brilliant Cambridge mathematician who developed many of the foundations of mschine intelligence, had no such limitations a century later. His universal computing machine, an endless paper tape, read from or written to, one square at a time, was entirely imaginary. The mathematics implicit in his device, however, were the essence of modern computing theory.

The physical means to realise many of the concepts in artificial intelligence were becoming available in the 1980s. The substantial processing power required was available through very sophisticated microprocessor chips, capable of handling information 32 binsry digits (bits) at a time in a similar manner to a mainframe computer (but at vastly lower cost).

Memory chips capable of storing one million bits of information were available. Chips able to store 16 times that amount were already well down the development path.

Most important of all, significant progress was being made towards the development of parallel processors, machines in which many small processors are linked together in a variety of ways to yield massive processing power. Conventional computers process instructions one at a time; parallel processors, many instructions simultaneously.

Parallel processing computers are a cornerstone of fifth generation systems. One advanced example of this kind of system, the "Connection Machine", which originated in the Massachusetts Institute of Technology (MIT) Artificial Intelligence Laborstory, involves 65,536 processors connected together and working cooperatively as a network.

And then there were the first commercial products of some three decades of research into artificial intelligence. These were "expert systems", computer systems which can store human expertise in a typically narrow area and regurgitate it in apparently reasoned answers to questions.

The success of these simple, but often effective systems together with developments in parallel processing (which have some affinities with neural networks in the living brain) have opened up serious questions about the limits of artificial intelligence and the uses to which it can be put.

These are complex questions requiring answers at several levels but they are critical to the successful use of computers in business, government and in society for the foreseeable future.

There are those who see in artificial intelligence the possibility of creating a higher level of intellect. Igor Aleksander and Piers Burnett (*Thinking Machines*, 1987) quote Edward Fredkin, manager of the AI laboratory at MIT as claiming that "there is no principle of science or engineering that prevents us from making intelligent computers that are infinitely smarter than ourselves."

Aleksander and Burnett find such claims unhelpful: "A large majority of those working the field of artificial intelligence would regard Fredkin's pronouncement as outrageous and damaging nonsense," they declare, arguing that a great deal more has to be discovered about the human brain before scientists begin to think about building machines to equal or supersede its competence.

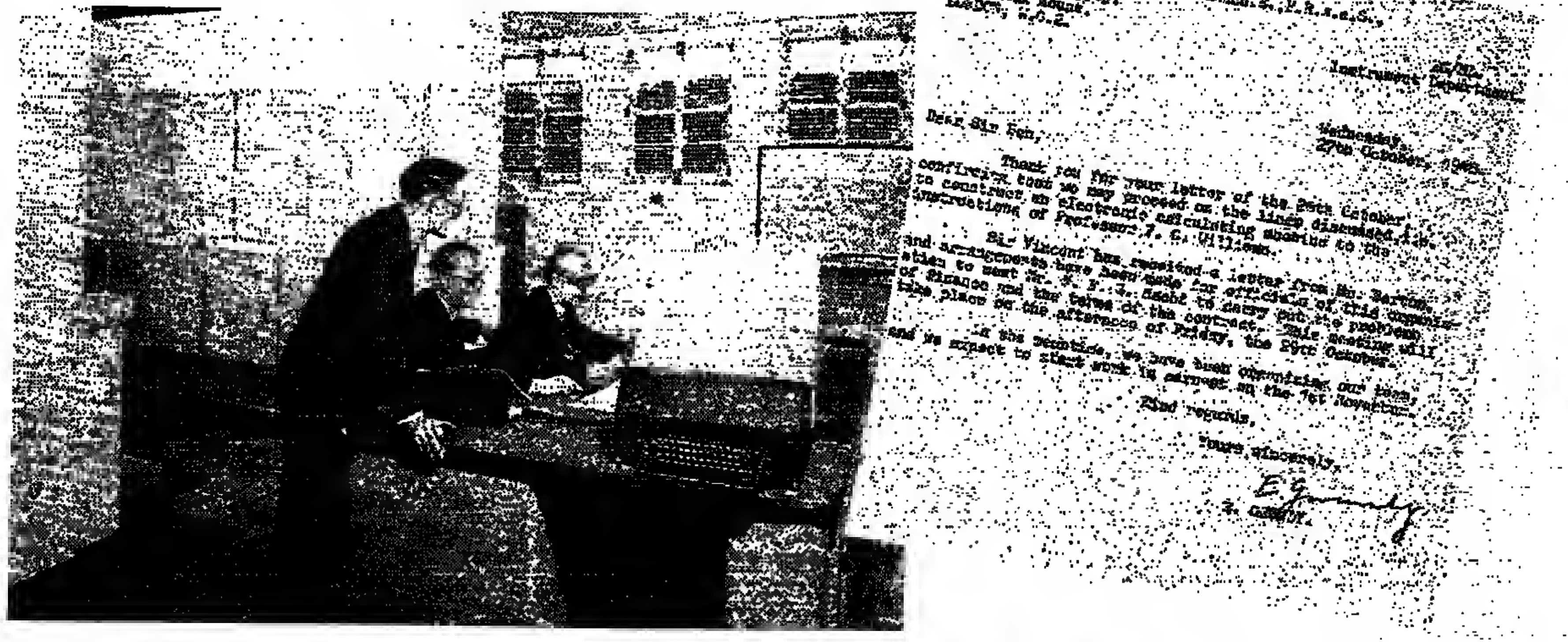
So, fears of computers with superhuman powere are seemingly groundless. What is much more worrying than the computer which understands more than we do is the computer that we cannot understand at all.

Programming is the problem. Major computer systems are programmed by teams rather than by individuals and their work is modified, patched up and rewritten by other teams.

Joseph Weizenbaum, another pioneer in the development of artificial intelligence software put it bluntly (*Computer Power and Human Reason*, 1976): "By the time these systems come into use, most of the original programmers have left or turned their attention to other pursuits. It is precisely when such systems begin to be used that their inner workings can no longer be understood by any single person or team of individuals." It is a phenomenon familiar to anybody with any experience of a modern data centre.

There is as yet no obvious solution to the software problem. It may well be that the greatest value of artificial intelligence, in the near term at any rate, will be in keeping track of the behaviour and purpose of software created by human intelligence.

Without such a safety net, what trust can be placed in software developed for "life-critical" applications in factories, industrial plants or weapons systems.



The origins of Britain's computer industry: a 1948 letter from Manchester University to the chief scientist of the Ministry of Supply, acknowledging the go-ahead to construct an electronic calculating machine and, four years later, the Ferranti Mark 1 Computer in action at the university

A COMPUTER INDUSTRY PIONEER

An indelible signature

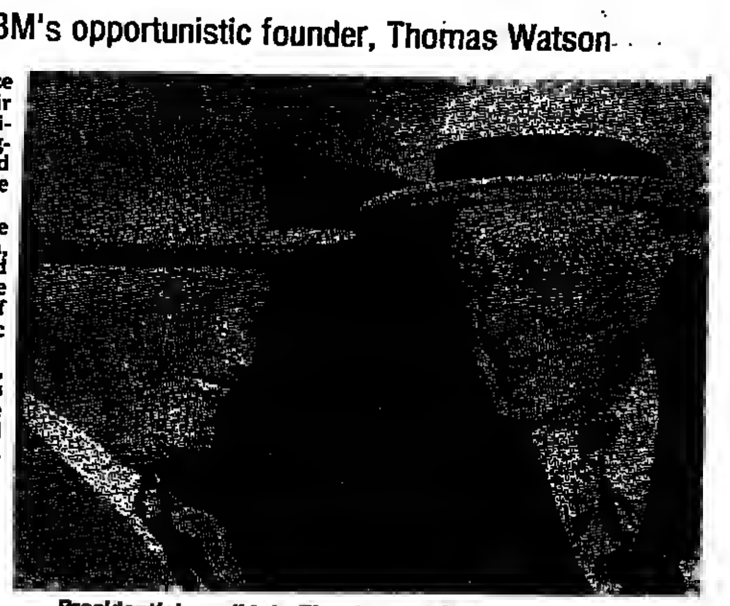
Alan Cane on IBM's opportunistic founder, Thomas Watson

FEW COMPANIES of any size are so cast in the mould of their founder as International Business Machines, the world's largest computer manufacturer and perhaps soon to become the world's largest company.

More than 30 years after the death of Thomas John Watson, the company that he created and tended during its formative years still bears the marks of his opportunistic, materialistic Presbyterianism.

Born in 1874, near New York, of Scottish ancestry, Thomas Watson started business life selling sewing machines and small pipe organs from a horse-drawn wagon, eventually apprenticing himself to two of the most formidable and ruthless salesmen of their day: John J. Range, manager of the Buffalo office of the National Cash Register Company, and John Henry Patterson, its overlord.

He learned the lessons taught by Range and Patterson well, put them into practice and instilled them in his own staff. IBM's reputation to this day is as a marketing organisation par excellence - rather than as a technological leader.



Presidential candidate Eisenhower with Watson in 1952

> Thomas Watson, the founder of what may soon become the world's largest company, started in business by selling sewing machines from a wagon.

IBM started life as the Computer Tabulator Recording Company and, in fact, missed the digital computer boat the first time round. J. Presper Eckert and John Mauchley, developers of one of the first commercial computers, sought finance from a largely uncomprehending Watson: "He was playing down the value of patents," Mauchley recalled. "He shook hands and turned us over to someone else who offered each of us a lab and the chance to work for the greater glory of IBM. So we turned them down."

It was left to Thomas's first son, Tom Watson Jr, born in 1914, to show the imagination and enthusiasm for technology that steered IBM into its dominant position in the world-wide computer business.

But he was following in giant footsteps. William Rodgers, whose book Think tells the story of IBM from the beginning to the late 1960s, reveals that the young Thomas Watson was a loner who avoided the hunting, shooting and fishing trips popular with his contemporaries.

"He did, however, leave the mark of his identity around the village; he loved to write his name repeatedly on things in a bold and heavy hand." In the creation of IBM, Thomas Watson scrawled his signature indelibly across the data processing practices of the majority of the world's major businesses.

A COMPUTING PIONEER

Sad genius

Alan Turing's several claims to history

ALAN TURING'S place in 20th century history would have been assured by virtue of a single paper - *On Computable Numbers* - which he published in 1936. Encompassing the idea of a "universal machine" which could solve any problem presented to it in binary digits, it laid much of the theoretical groundwork for the development of the digital computer.

As it was, however, he went on to play a key role in breaking German code systems during the Second World War, to lay the basis for modern research into artificial intelligence and to draw up plans for an advanced commercial computer, realised eventually by the UK's National Physical Laboratory as the Pilot ACE.

Turing read mathematics at Cambridge in the early 1930s and was elected to a fellowship at King's College at the age of 22. He spent a couple of years doing graduate work at Princeton in the US with the computer pioneer John von Neumann.

Fond of running, cycling and chess, his brilliance was matched by his eccentricity. He would cycle round Buckinghamshire wearing a gas-mask to ward off hay fever. He rigged a gadget to his bicycle to count the turns of the wheels, having ascertained that the chain always fell off after a certain number of revolutions. It never seemed to occur to him to take the machine to a mechanic for repair.

His work during the war was on Ultra, a project carried out at what was then the British Government Communications Headquarters (GCHQ) at Bletchley Park. The aim was to crack the German Enigma codes, cryptograms created using a complex electromechanical device and supposedly unbreakable. Turing, working with T.H.Flowers and M.H.A.Newman among others, built an electronic decoding machine called Colossus which successfully read the German signals. Colossus was, to all intents and purposes, the world's first working electronic computer.

After the war, Turing turned his attention to artificial or machine intelligence, devising the Turing Test to determine whether a machine could be said to have intelligence. He suggested that if a human observer behind a screen and communicating through terminals with both another human and with a computer could not distinguish the man from the machine after a period of dialogue, then it would be unfair to deny that the machine was intelligent.

He predicted that by 2000 the average interrogator would not have more than a 70 per cent chance of making the correct identification after five minutes of questioning. Alan Turing died in 1954, tragically and probably by his own hand, of cyanide poisoning, before the microelectronics revolution could give substance to his dreams of machines which emulated human thought.

Alan Turing: sad end

THEATRE

Rich talents create golden age on stage

Two events in 1888 have proved prophetic, observes Michael Coveney

THE Financial Times carried its first theatre notice in April 1953, as evidence of the newspaper's self-proclaimed "widening range of interests."

The article, by Derek Granger, now a distinguished film and television producer (of *Brideshead Revisited*, among much else), was an elegant account of Graham Greene's first play, *The Living Room*. That play turned up again in London last year, showing signs of wear but distinct premonitory flashes of the plays of religious and sexual guilt that came after, a trailer for more secularised territorial forays into the Pinter hinterland.

Tumultuous events in the theatre of the past 30 odd years have been recorded in these pages by Mr Granger's successors – T C Worsley, B A Young and myself, with essential support work at various times by Anthony Curtis, Garry O'Connor and Martin Hoyle.

In Britain, we have seen the foundation of the English Stage Company by George Devine at the Royal Court with John Osborne's *Look Back in Anger*, the establishment of the Royal Shakespeare Company by Peter Hall in Stratford-upon-Avon and London, the opening of the National Theatre under Laurence Olivier at Chichester and the Old Vic in the early 1960s, followed in 1976 by the company's transfer to its own allotted home on the South Bank after a century of agitation, and the growth of a regional and fringe theatre movement underpinned by the Arts Council, the cultural conduit of taxpayers' money founded by the economist Maynard Keynes in 1947.

If one thing strikes me about that period, it is the interlocking nature of so much in world theatre. Going back a century, I would select two random events of 1888 as particularly prophetic: the chance discovery of Johannes de Witt's sketch of the Swan Playhouse, drawn in 1596, and the premiere of Strindberg's *Miss Julie*.

The first gave a clear idea of how non-scenic was the Elizabethan theatre and led directly to the foundation in 1895 by William Poel of the Elizabethan Stage Society. Fustian Victorian staging was put under fire, texts re-established, the intellect engaged once more. Clarity and simplicity characterised Poel's innovations, all of which have resurfaced in the modern RSC.

Modern technology has resulted in a new kind of visual extravagance. But theatre architecture has recoiled from the concrete functionalism of the mid-century self-advertising civic philosophy that resulted in the new National and Barbican buildings.

The galleried neo-Georgian style theatre has renewed the intimacy between player and audience – once, we assume, the trademark of the Swan. And now the RSC has its own Swan at Stratford-upon-Avon.

Miss Julie, the suicidal rebel who succumbs to the passion of a valet, was described by her creator as a half-woman and man-hater. The character presages so much in the century's drama, just as Strindberg's mingling of his own tortured private life opens the floodgates of the confessional psycho-sexual drama that is so prevalent in our literature, both off and on stage.

Two years after *Miss Julie*, Ibsen's *Hedda Gabler* burned her dull husband's manuscript and shot herself with her father'e pistols. Strindberg and Ibsen hastened the divide between the theatre of seriousness and mere entertainment. The split characterises the century, with our own Bernard Shaw ditching his task of critical trail-blazing to bring wit and wide popularity to the serious drama in his own plays.

Little theatres like the Theatre Libre in Paris (founded in 1887), the Freie Buhne in Berlin (1889) and the Independent in London (1891) marked the century's intellectual commitment to the theatre. The great institutions soon followed: the Moscow Arts with Stanislavsky and Chekhov in 1897, the Dublin Abbey in 1904 (the year of *The Cherry Orchard*) and, after two world wars, Giorgio Strehler's Piccolo in Milan and Bertolt Brecht's Berliner Ensemble in 1949.

The ensemble is a 20th century ideal in theatre, one to which our own big companies still aspire. But commercialism has been a potent force, too. The advent of electric lighting in theatres 100 years ago coincided with the rise of the theatre-owning management and the corralling of the theatre by the bourgeoisie.

The impetus came from America, where David Belasco was the first big commercial impresario. His counterparts in Britain were Sir Edward Moss (who entered theatre from the circus) and Sir Oswald Stoll (who came from journalism). Vaudeville, burlesque and music hall on both sides of the Atlantic were swallowed up in the entertainment theatre, in show business.

Art hit back in the great musicals originated on Broadway and in the West End comedies of manners by Noel Coward in the 1920s and 1930s.

This system, art and show business viewing each other with suspicion before, quite often, taking to the same bed, still characterises theatre in Britain and America. Trevor Nunn, who succeeded Peter Hall as artistic director of the RSC, is now the chief creative apologist for the musical theatre, while the popular compositions of Andrew Lloyd Webber have wrested the initiative in this sphere from Broadway to Shaftesbury Avenue.

Irony, scatology and satire are the preferred weapons of theatrical humorists, some historians think as a way of contemplating the political grotesqueries of this century, starting with the Great War. Alfred Jarry'e *Ubu Roi* had set the tone in 1896 when, in an infantile parody of *Oedipus Rex*, the hero had turned on the audience and shouted *merdre*.

Theatrical forms became increasingly self-conscious, resulting in what may be the most important theme of the century, that of anti-illusionism. This surfaces in the alienation-effect of Brecht, but also in the absurdist "theatre within a theatre" plays of Pirandello. *Six Characters in Search of an Author* was premiered in Paris in 1921.

The playe of Sartre and Anouilh in Paris developed a blackening mood and also a sort of jaundiced, bitter-sweet frivolity. Anooilh's influence,in particular, can be sensed in the spirited experiments of Tom Stoppard, cavorting merrily between linguistic philosophy and the boulevard.

Brecht and Anouilh contain the seeds of theatre as anti-theatre given definitive expression by Beckett in *Waiting For Godot*, a play written at the end of the 1940s but not performed in London until 1955.

Beckett, primarily a comic writer, has been over-identified with a vision of nihilism. But his characters, in play after play, have given resonant poetic expression to the sense of futility and impending aftermath that afflicts each generation of children "born astride the grave."

Over the last 30 years, we have seen the rise of the director as a powerful force, the increase in business sponsorship of respectable enterprise, the departure from Britain of Peter Brook, our most outstanding post-war director, to Paris, and a laboratory lifestyle of dramatic excavation among primitive cultures.

John Osborne's *Look Back In Anger* (1956) chimed with the new generation of grammar school meritocrats and provincial actors entering the theatre. And Harold Pinter's *The Birthday Party* (1958) heralded a new, stylish and menacing voice that owed as much to Strindberg and Pirandello as it did to Beckett and Coward.

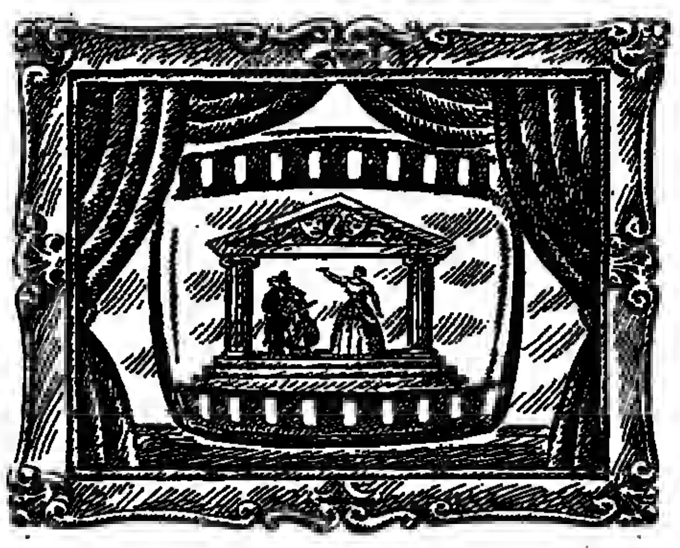
In the past three decades, our great British actors have come up to date, too. Olivier, spanning the century like a shooting star, transformed his career as the seedy vaudevillian Archie Rice in Osborne's *The Entertainer*. Ralph Richardson and John Gielgud appeared in plays by Pinter, David Storey and Edward Bond. Peggy Ashcroft remained a "lass unparallelled" in Shakespeare and occasionally on television.

As we step nervously towards the 1990s, our theatre shows signs of resilience even as it struggles to adjust to continuous economic pressures. Its actors remain the chief glory, and the greatest source of delight, for any dramatic critic.

However tarnished our times, the age is golden that can boast the talents of Judi Dench, Vanessa Redgrave, Glenda Jackson, Maggie Smith, Antony Sher, Jonathan Pryce, Anthony Hopkins and the performer who shows every sign of re-defining what we actually mean by great acting, Michael Gambon.

Lord Olivier has spanned the century like a shooting star

THE ARTS



Both the visual and performing arts have become accessible to a much wider public worldwide in the post-war period and much more international in character.

Establishment of the Royal Shakespeare Company under Sir Peter Hall (top) was a key event. Composer Andrew Lloyd-Webber, a new giant of the theatre.

SALEROOMS

Delicately poised

Antony Thorncroft reviews two decades of strong growth

SIXTEEN YEARS ago, when the Financial Times started to take a close, daily, interest, in the machinations of the leading auction houses, Christie's had annual international sales of £19.7m. and Sotheby's of £43.3m.

Last year Christie's turnover was over £580m. and that of Sotheby's £837m. Indeed Christie's sold one painting, Van Gogh's Sunflowers for £24.75m. and Sotheby's almost managed to exceed its annual turnover of 1971-72 with one lot when it knocked down another Van Gogh, Irises,for $53.9m.(£30m.). The growth of the two salerooms in recent years has been phenomenal. They have taken over from the antique dealers as the main source of works of art; they have spread overseas, especially to New York, Geneva and Monte Carlo; and they have managed to get across the idea that works of art can be considered a good alternative investment on top of any aesthetic appeal.

And for most of this period they were a great British success story. Building on reputations which stretched back into the 18th century, Sotheby's, Christie's and Phillips, the third in size, ensured that London was the centre of the international art world. Of course, long established dealers, like Agnew, Spink and Colnaghi made a contribution to London's dominance but it was the expertise ofthe salerooms, promoted by their extensive publicity departments, which ensured that, like Harrods, they personified British tradition and style.

Like Harrods, too, their success attracted predators. In 1983 Sotheby's was in financial difficulties when frantic growth overseas, especially in the US, coincided with a downturn in the art market. To rescue it from an unwelcome bid, the Sotheby's board turned to Mr Alfred Taubman, an American real estate tycoon, who now owns virtually all the shares (and who plans to offload almost 30 per cent to the public when the stock markets improve). Christie's has been the subject of numerous take over rumours, but can also probably arrange an agreed bid if in any danger. Phillips, much smaller in size,with sales last year of £77.7m, has made it plain it would love to acquire Christie's, but this is seen as presumption at this stage.

The purchase of Sotheby's has not had any profound effect on its operations - yet.Mr Taubman has pushed the idea of art as investment more heavily than his British directors and by touting very expensive lots around the world has tried to introduce millionaires to the joy of antique collecting. He has expanded the real estate subsidiary of Sotheby's, and more than recouped his investment by selling the air rights above its New York saleroom for the construction of a condominium.

But while New York seemed to be overtaking London as the prime centre for trading in art two years ago now there is a balanced stability between the two. Sotheby's switches its most expensive lots from city to city according to the strength of the local market. New York is obviously better for contemporary art but London still has the edge in Old Masters.

Sunflowers by Vincent van Gogh was sold by Christie's for a then record of nearly £25m. in March 1987

The power of Sotheby's and Christie's has bred a certain arrogance. There is little legal restriction on their activities and they get away with practices which seem bizarre to outsiders. It is only in the current season that they have stopped pretending that every lot offered has found a buyer. As it is they cannot bring themselves to say 'unsold'; the auctioneer tends to clear his throat and quickly pass on to the next item.

There is also the anomaly that they take revenue from both buyer and seller, which confuses the issue of whose interest they are principally representing. Perhaps the biggest row in the art world in the last sixteen years has been over the introduction of the buyer's premium in 1975. Until then the salerooms had earned their money by taking a commission from the seller.

In an effort to raise income both Sotheby's and Christie'e simultaneously added a 10 per cent charge to the hammer price to be paid by the buyer, raising accusations of collusion. As a way of boosting income it was marvellous, because the seller still had to pay 10 per cent. The dealers, by far the main buyers in the auction rooms, were furious and attempted a boycott, but so dependent are they on the flow of antiques passing through the salerooms that they had to accept the new procedures. Ever since, however, relations between the auction houses and the dealers have been strained.

In many fields, such as silver,furniture and Old Master paintings dealers are still very important but because they cannot match the publicity machines of the salerooms their achievements as suppliers of valuable antiques is underplayed.

The salerooms have boomed on the back of the increase in excess wealth; the growing interest in the past; the rise of art history as an academic discipline; the emergence of global collecting; the search for alternative investments; and the genius of individuals, such as Mr Peter Wilson, who pushed Sotheby's to the fore, and, in a more modest way, Mr Jo Floyd of Christie's.

But they cannot now relax. The expansion rate of recent years - in the last season (which runs from September to August) Sotheby's boosted sales by 85 per cent and Christie's by 50 per cent - puts an impossible burden on them. When the stock markets faltered last autumn the salerooms quickly noticed a lessening of demand, especially for the middle range goods. As dealers find more difficulty in selling stock so will their buying pressure in the salerooms falter.

In the last two years Japan has taken over from US as the main source of new growth. The Sunflowers went to Japan, as have other western treasures, from expensive illuminated manuscripts to Old Masters.The global spread of demand is some safeguard against a recession in the US or Europe. But there are other challenges to the salerooms, apart from the economic. The EC in Brussels is threatening to intrdouce VAT on imported antiques in the UK which would badly hit London's entrepot status - in many important sales, such as Impressionists, most ofthe lots come from abroad and go back overseas.

The salerooms have prepared themselves for any change by moving into Monte Carlo, Switzerland, and more recently, Germany. They are also looking forward, too, to the lifting from 1992 of restrictions in France on foreign auction houses.

Sotheby's and Christie's, easily the largest auction houses in the world, dominate the market. Local salerooms in the UK are tending to disappear: many have been bought by Phillips which now has a chain of small regional rooms and offices.

Two very different markets are developing - the big international sales,at which over $100m. can be bid in two hours, and the regular weekly auctions where the national passion for antiques finds an outlet. Sotheby's and Christie's have largely cut themselves off from selling any lot for under £250.

Their representatives scour the world for the important collections which might be ripe for the market. A succession of deaths among rich American widows can still make all the difference to the annual sales figures.

Increasingly, the activities of the auction houses come up against worries in the countries they operate in that the national artistic heritage is being lost to foreigners.

But if they find it harder to repeat the growth of recent years they might feel the need to adjust their approach. At the moment the art world is neatly poised between two decades of unparalleled expansion, and a more competitive, probably less gentlemanly, future.

هكذا من الأصل

CINEMA

Better news at the box office

Nigel Andrews reports on signs of renaissance in the UK film industry

CINEMA IS the only art form in the world which is younger than the Financial Times. Though it was almost exactly 100 years ago – in 1887 – that a new suburb of Los Angeles came into being, named Hollywood, it was another 25 years before the lights and cameras moved in, closely followed by directors sporting jodhpurs, bullhorns and triple-barrel names (Cecil B De Mille, Erich Von Stroheim). Only then did Hollywood become synonymous with the movie business.

Other famous start-dates in film history sprang up before and have sprung up since. The first public movie projection in 1895 (in Paris, courtesy of France's Lumiere Brothers). The first talking picture in 1927 (Al Jolson in *The Jazz Singer*). The arrival of colour at much the same time. (The crown of First Feature Film photographed in colour is disputed, but the first notable one was undoubtedly Douglas Fairbanks's *The Black Pirate*, made in two-tone Technicolor in 1926). The first Cinemascope film in 1953 (*The Robe*).

That last event, though artistically none too auspicious, could be said, if anything could, to have begun the modern age of cinema. For it signalled the first major shot in a war that has continued to this day: the war for audiences between cinema and television. Nowhere has this war, and its impact on cinema's development, been more keenly felt than in Britain. More than three decades of world cinema have passed since Hollywood first tried to outgun the small screen by going for wrap-around spectacle. *The Robe* was joined in the 1950s by armies of films in Cinemascope, Cinerama, 3D and other wall-to-wall or eyeball-to-eyeball processes. During that time Britain has tried to keep its film industry going in the teeth not just of television but of heavy competition, and sometimes near colonisation, by its same-language ally across the Atlantic.

Astonishingly, the British cinema has not only survived, but has come through to flourish. Today our movies are the most vibrant in Western Europe, perhaps in the Western world. Films like *My Beautiful Laundrette*, *The Draughtsman's Contract*, *A Room With A View*, *Hope And Glory* and *Wish You Were Here* have won us friends and influence abroad. And at home, the brutal axeing in recent years of virtually all centralised subsidy from the film business – including capital allowances and the 30-year-old Eady Levy on cinema tickets – has not destroyed our film-makers. Rather, it has proved what we knew all along: that they can make bricks without straw, and rather good bricks at that.

> Astonishingly, Britain's film industry has not only survived but has come through to flourish, with films which today are the most vibrant in Europe

None the less, it has been a testing era. The post-war epoch began well, then sagged disastrously, and only lately has picked up again. For 15 years after the war Britain's vitality in film production was encouraging. At our studios one money-spinning series succeeded another: Ealing comedy, Hammer horror, the Carry Ons. And when the Swinging 60s came into view, Britain hsd a new film movement to match it: the abrasive realism and immediacy of films like *This Sporting Life*, *Soturday Night And Sundoy Morning* and *If*.

Lindsay Anderson, its director, described *If* at the time (1968) as "something like the writing on the wall." What he was talking about was the possibility of a class revolution in Britain. But as the decade progressed, the writing on the wall looked more as if it aimed at British cinema itself. However British the subjects or settings, fewer and fewer British films in that swinging decade were being financed by their home country. One reason was the emergence of the phenomenon known as "Hollywood, England." In the 1960s the American majors came over to plant offices in London and reap benefits from the Swinging City and its financial advantages. At one point in the decade, 90 per cent of British film production was being paid for by America.

Another reason for the writing on the wall was the emptying cinemas. Drastically falling audiences – they fell from over 600m admissions in 1959 to 54m in 1984 – soon meant that British film-makers relying on the British market could say goodbye to seeing their money back from any but the tiniest-budgeted movie (under a million pounds).

Britain's initial panic reaction to this development was to go international. In the 1970s EMI, after a series of home-front flops under their former chief Bryan Forbes, took their deal-making machinery to Hollywood. There they financed films as diverse and broad-based in their intended appeal as *Convoy*, *The Deer Hunter* and *Honky Tonk Freeway*. But when the flops began to outnumber the hits, so also began the slow decline of EMI's reputation and bank balance that led in 1986 to takeover by Cannon.

In those spine-chilling years Cannon also took over from EMI their theatre chain. This was one prong of the notorious exhibition duopoly (the other being Rank) that many people believe to have been at the root of British cinema's troubles. What few could have dared to suspect was that Cannon's maraudings in the cinema-chain area – in addition to EMI's theatres, they also snapped up the Star and Classic chains – would soon end the duopoly in favour of a virtual monopoly.

The largest nail in the coffin of British cinema seemed to come with the Film Acts of 1984 and 1985. As well as abolishing tax allowances and the levy on cinema tickets, the Acts scrapped the National Film Finance Corporation, a body which had bravely doled out a few million pounds of state subsidy per year to film companies who, like Oliver Twist, always wanted more. In place of the NFFC, we now saw the birth of "British Screen", a consortium of movie companies pooling largely their own money rather than the state's in the interests of good cinema.

There have been times when this unpromising climate – American domination, a sclerotic exhibition scene and the withdrawal of virtually all government support – has seemed tantamount to a cry of "Abandon ship!" But in the same decade some strange and heartening things have begun to happen. We had a double dose of Oscar success – *Gandhi* and *Chariots Of Fire* winning Best Film prize in successive years (1982 and 1983) – and we were treated to a startling renaissance in mini-budget cinema pioneered by Channel 4. The ship of UK cinema, having entered tilting bow first into the ravening seas, suddenly began to right itself.

In 1985 we had British Film Year. And soon after that, the newspapers recorded the scarcely credible news that more, not less, people were going to the cinema. After the all-time low of 1984, there was a 30 per cent rise in 1985, and further small rises in 1986 and 1987, when admissions totalled a heartening 76m.

Where the cinema goes from here is anyone's guess. Worldwide, we suddenly find ourselves with a bursting audio-visual toy cupboard. Video, cable and satellite are with us. New big-screen processes (Imax and Showscan) are being pioneered to counter the threat from home viewing. And as the 1930s showed, there is no time like an economic recession for pushing people back in front of the entertainment screens.

As for Britain, its postwar history teaches us the most priceless lesson of all. There is no such thing as a point of no return in movie history. Cinema can pull itself up by the sprocket-holes from the most terminal-seeming of disasters. An art form based on the persistence of vision is going to make absolutely sure that "vision" persists.

By 1946, a third of Britain's population were attending cinemas once a week or more. In 1978, however, cinema admissions had fallen to 127m a year, declining to 54m by 1984. Attendances suddenly improved in 1985 (71m), rising again steadily to 76m last year. The great movie stars of all time include (from left), Charles Chaplin, Marilyn Monroe, Marlene Dietrich, Humphrey Bogart and, (below), Rudolf Valentino and Greta Garbo.

ELECTRONIC ENTERTAINMENT

Vision of the future

Raymond Snoddy anticipates a revolution in home entertainment

THOUGH FEW would have been aware of it at the time, the arrival on the streets of the first copies of the Financial Times in 1888 coincided closely with the birth of a new electronic age of communication.

As the struggling paper, subsidised by profits from the publisher's other title, The Draper's Record, was promising to be 'the friend of the honest financier,' a young German physicist, Heinrich Hertz, who was to die tragically young, was carrying out basic research that would help to revolutionise the future of domestic entertainment and information.

Hertz managed to create and receive radio waves and demonstrate their electromagnetic nature – an important step on the road to broadcasting. Equally significantly, nine years earlier in 1879 London's first telephone exchange had opened with seven or eight subscribers.

A century later, the influence of both technologies is still spreading ever outwards creating dramatic new opportunities for the delivery of electronic news, information and entertainment to the home of the 21st century.

What this new world could eventually look like is perhaps dangerously easy to forecast because so many of the possibilities already exist either in limited form or as working prototypes in the research laboratories.

In the vision of the future there is little doubt that the television set will no longer be a small, squat box in the corner, but a large flat screen on the wall, displaying pictures that match the best cinema quality and complete with digital stereo sound.

A multitude of channels will be available, broadcast from space platforms which will gradually replace the present

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TELEVISION

Audiences now on a global scale

Christopher Dunkley suggests that television has helped to make film more popular than ever

A worldwide television audience of 750m people watched the spectacular Royal Wedding celebrations on July 29, 1981 – at that point the largest TV broadcast in history. Above: members of the Royal family with the Prince and Princess of Wales, wave to crowds – and cameras – outside Buckingham Palace.

IN THE same year that the Financial Times was launched, George Eastman gave the world the Kodak Box Brownie, and, in Leeds, a man named Le Prince filed a patent for the use of sprocket holes to achieve efficient synchronisation on the Kinetoscope, a peepshow machine.

The arrival of the sprocket hole marks the true beginning of the film industry, so the history of this newspaper has run precisely parallel to the history of the visual mass media.

It has taken 100 years to move from the Brownie and the Kinetoscope to a daily diet of *Neighbours* and a weekly taste of *Dallas* for millions of Britons: visual entertainment in the home, coming to us from Australia and the US, respectively.

Foreign origins and huge ratings are significant because the story of cinema and television is the story of a modern industry which has been international from the outset and has driven steadily towards global audiences.

In one sense the cinema during its earliest period was more like televisioo than it was during its heyday io the 1940s. Though the most famous of the early pictures were fictions - *The Great Train Robbery* of 1903, *The Perils Of Pauline* in 1914, *Easy Street* in 1917 and so on - there was also a powerful factual element.

Fan clubs and movie magazines reflected the great popularity of tbe cinems between the mid-20s and mid-40s. By 1946, British ticket sales reached an all-time high of 1,640 million, yet by 1986 the figure had tumbled to 72m.

It has recently become fashionable to pooh-pooh the belief that the reason for this dramatic decline was the growing popularity of television. A book called *The Last Picture Show? Britain's Changing Film Audience* written by Docherty, Morrison and Tracey and published by the British Film Institute in December 1987, declares: "Television was framed; the real culprits were Elvis Presley, expresso coffee, the Town and Country Planning Act of 1947 and the sclerosie of the British [cinema] exhibition industry".

Their argument is that the decline of one form of entertainment and the ascendancy of the other was not a matter of cause and effect, but that both changes arose from the same underlying movements in society. No doubt they have a point, yet even this book says that "only two thirds of the decline would be attributed to television" (only!). Moreover, the coincidences are difficult to ignore.

The world's first proper high-definition television service was started from Alexandra Palace by the BBC in 1936. They mounted the first major outside broadcast in 1937 for the coronation of George VI, and attracted a record audience of 50,000. But on 1 September 1939, without warning, the screen went blank – and two days later war was declared.

The screen stayed dark for seven years, and then the service began in earnest in 1946: the year before cinema attendance figures began to decline.

In that year average weekly admissions to the cinema were 31.4m. On 2 June, 1953 the BBC not only televised the coronation of Queen Elizabeth II but - at the insistence of the young monarch herself, who over-rode the advice of the Cabinet - the cameras were allowed right inside the obbey.

Richard Dimbleby gave the commentary and all over Britain the fortunate possessors of television sets invited in family, friends, and neighbours to "look in". The result was that there were more viewers per set on that day than ever before (or since) and the audience topped 20 million, exceeding radio's figures for the first time. Television sales rocketed and by 1964 average weekly cinema admissions were down to 25 million.

For television the early 1950s were the years of the shared national experience. Television critic Philip Purser conveyed the feeling when he looked back to write about the BBC's first production of Orwell's *Nineteen Eighty-Four* which was screened in 1954. He said: "I was vaguely aware that evening of what I now believe to be the unique virtue of broadcast television. I wasn't alone, or with a couple of others, in that poky back room where they kept the TV. I was plugged into a huge nation-wide audience, hanging onto every turn in the story."

There were 5m television sets in British homes in 1955 which was the year commercial television really got going. In 1956 British cinemas showed Bill Haley and his Comets in *Rock Around The Clock* teenage Teddy Boys dutifully ripped up a few seats, and respectable film fans stayed away in their millions.

By 1957, ITV was offering its viewers *The Adventures Of Robin Hood*, *Emergency Ward 10*, *The Army Game*, *Double Your Money*, and *Take Your Pick*. In September 1967, to the horror of the BBC, where the statistic has never been forgotten, Britain's brash new commercial television service claimed 79 per cent of the audience.

By 1958, cinema attendence figures were down to 14.2m a week, a fall of more than 50 per cent in 12 years, but the number of television sets had risen to 10m

Since then, the milestones have been the opening of BBC2 in 1964 (the year that T. C. Worsley began his exemplary television column in the FT); the coming of colour in 1967; the launching of Channel 4 in 1982; and, in the last 18 months, the beginning of 24-hour television.

It is estimated that there are now 500m television sets in the world, 20m of them in Britain where 98 per cent of the population has direct access to one. More than half of Britain'e homes heve two or more, and the average time spent viewing by every man, woman and child is three hours a day in the summer and four in the winter. Cinema admissions have slipped to 1.3m a week.

And yet, paradoxical as it may seem, the form of entertainment made possible by the invention of the sprocket hole – the movie – is more popular than ever. Audience figures in 1986 were not just higher than in 1946 but probably double. The difference is that today people watch in their own homes, on the television screen which, during the history of this newspaper, has supplanted the hearth as the chief focus of domestic life.

Not only do our television channels each offer anything up to 12 old movies a week, many of them attracting audiences running into millions, some as large as 18m, but increasing numbers of viewers hire new movies from high street video shops.

Today, more than half of British homes possess a video recorder and in 1986 there were 350m rentals of feature films on cassette. Since it ie estimated that three viewers on average watch each cassette the annual figures for video viewing alone - 1,050m - hsve now entered the same league as cinema during its peak period in the 1940s. Add together the figures for old movies off-air and newer movies on cassette and the figures for 1988 would undoubtedly be higher than those for 1946.

Today's homes are mostly warm and comfortable and the video recorder allows you to stop and make a cup of tea whenever you choose. The Essoldo could never do that.

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hit or miss business of launching individual satellites into geostationary orbit.

The plethora of information and images from space will be augmented further by the potentially limitless capacity of fibre optic national grids bringing the final union of telecommunications, entertainment and education.

Uofortunately it is much easier to sketch such a utopian destination than to be precise about how or over what time scale it will be resched, or, indeed, to be certain at all about which new products the consumer will embrace or reject.

Mr John Forrest, director of engineering at the Independent Broadcasting Authority also recently sounded a warning about the strength of inertia in areas where there is already a strong consumer base and where the public's patterns of behaviour are long established.

More than 50 years ago, he points out, it was conclusively demonstrated that broadcasting on FM in the VHF band gave far superior radio reception than AM broadcasting in the long and medium wavebands, yet FM has still not surplanted AM.

Mr Forrest also believes that manufacturers may be creating too much uncertainty in the marketplace because new consumer products are arriving at declining intervals – for example the launch of digital audio tape so hard on the heels of the compact disc.

"I think the consumer is getting to the stage now where he or she is starting to put their foot down about new technologies," says Mr Forrest. He believes it is important to show the consumer a planned strategy for the introduction of new products, and, in particular, that the approach to high definition television should be an evolutionary one which does not render all existing television sets obsolete.

Apart from the inertia factor and consumer confusion, technology is already rapidly bumping against a ceiling imposed by the physical limits of human eyes aod ears.

Plans for high definition television which rely on roughly doubling the present 625 lines in a PAL television set, for instance, would take pictures close to the optimum level where the eye can distinguish differences. Compact discs, to be followed in the age of satellites by digital stereo sound, will do the same for the ears.

However, Mr Ivor Cohen, former manging director of Mullard, the Philips electronic component company and a member of the Government'e Information Technology Advisory Panel has emphasised that when the British public does perceive value in new electronic gadgets for the home they tend to be receptive. British consumers led the way in Europe in early adoption of colour television sets, the video recorder and the home computer.

Mr Cohen also points out that new consumer electronic products have tended to fall dramatically in cost if the price is calculated in the number of weeks of average pay needed to purchase each item rather than pounds.

In the first five years of black and white television sets, after World War Two, the price fell from an equivalent of 16½ weeks' wages to 12 weeks. By comparision, the cost of a colour teletext TV fell from 6 weeks to 2½ between 1979 and 1983.

On the Cohen ecale, the receiving equipment for direct broadcasting by satellite should cost less than 2 weeks average wages when it is introduced next year.

Against this background what can sensibly be divined about the future of entertainment and information in the home? Extra choice is definitely on the way.

A privately-backed 16-channel satellite project called Astra is scheduled to be launched late this year which will be powerful enough to deliver pictures to receivers on individual homes as well as to cable television networks.

It will be followed in 1989 by the first privately-funded European direct broadcasting by satellite project, British Satellite Broadcasting, which will offer three new national channels of television.

Eutelsat, the European satellite organisation is planning to launch four powerful flexible satellites designed to meet needs for television satellite capacity until the end of the century at least.

The high-power satellites will bring with them digital stereo sound channels and the ability to move to high definition television with a picture closer to the shape of the cinema screen, probably from the mid 1990s on.

At the moment, all the signs are that the Europeans will produce a co-ordinated evolutionary approach to high-definition television – and that the Japanse high- definition standard which would render all existing equipment out of date will not prevail as the single world standard.

Mr Forrest of the IBA believes that the 1990s will be the decade of the television satellite and that the creation of o comprehensive national fibre optic network may have to wait until the next century.

Futuristic home TV systems will probably use large flat screens on the wall, complete with superb digital stereo sound

The Government would clearly like to see such a network created but does not want to meet the vast cost itself or to add to the power of British Telecom by giving it exclusive control of such a valuable asset.

In a less futuristic, and undoubtedly more realistic way, Governmente all over Western Europe have been discovering spare frequencies for new terrestrial television channels.

In the UK, engineers are in agreement that there is room for a fifth channel covering up to 70 per cent of the country and a sixth channel available to 50 per cent of the population.

Time may, in the end, turn out to be a greater limiting factor than technology or spectrum shortage on the development of the new media – apart from those who are given too much involuntary leisure through unemployment.

Research in the US suggests that the overall amount of leisure time available to a family has actually been declining largely because of the increasing number of women in the workforce.

In West Germany, forecasters have predicted that the use which people make of the mass media will increase over the next 10 years – but only by 12 per cent – and then be close to saturation point. But the future of home entertainment may not all be about pictures, wide screens and satellites – or as passive entertainment.

Yamaha, the Japanese musical instruments company, which celebrated its centenary last year, has ambitions to be able to create the sound of a full orchestra with no loss of sound quality whatever.

At the moment, some of the instrumental sounds which are electronically-created – euch as the guitars and the violins – may still be falling short of perfection, according to the keenest ears.

So, one day, when there le nothing much appealing on the 100 or so television channels, and you do not fancy watching your own choice of film downloaded along an optical fibre network, you will always be able to conduct your very own electronic orchestra and record the result in flawless digital stereo sound.

LITERATURE

The vanquishing of Mrs Grundy

Anthony Curtis on the seeds of modernism

THE YEAR IN which this newspaper was started was the year in which T.S. Eliot was born and also the year in which Matthew Arnold died. It was as a young American in London, working in Lloyds Bank in the 1920s, that Eliot began to publish his critical essays, laying down new guidelines for literary appreciation. Eliot set new standards just as Arnold's lectures, Culture and Anarchy, had done for an earlier, High Victorian generation. It was too in the 1920s that Eliot published *The Waste Land* offering a bewildered poetry-reading public a vivid illustration of what a truly modern poem was like.

But if modernism came to its fruition in works published in the first quarter of the 20th century, the seeds had been germinating ever since the 1880s, and we can see shoots of modernity in many English writers we would describe as late Victorian nr Edwardian.

Modernist rumblings can be clearly heard in the English novel at the beginning of the FT period. Dickens and Thackeray, George Eliot and Trollope, were all dead, the last two only just; but the kind of fiction they had written – long novels with multiple plots, that were published in three volumes, and had appeared in serialised instalments – was still obligstory.

The English novelists of the 1880s, Hardy, Meredith, George Moore, Gissing, accepted this situation but they chafed and grumbled. They resented the restriction of the form and they resented the restriction imposed on the content by Mrs Grundy (clearly an ancestor of Mrs Whitehouse but much more powerful), who objected to such incidents as Tess being carried to safety in the arms of Angel Clare.

By the time he wrote *Jude The Obscure* (1895) where the "new woman", complete with complicated sexual problems, makes an early appearance in the person of Sue Bridehead, Hardy had had enough of such reactions and gave up writing fiction altogether, devoting the remainder of his long life to poetry, an early modernist.

It was Moore who ultimately broke the fictional mould. He told his publisher his next novel would be in one volume, and that did it.

Moore dealt too with Mrs Grundy in a pamphlet *Literature as Nurse*. He savagely flouted her attitudes in his novel, *A Modern Lover*. The plight of women who resisted the pressures of the marriage market concerned him as it did Gissing in novels like *The Odd Women*.

If a demand remained for long novels of feminine interest, readers wanted shorter fiction too. The spread of literacy, and the expansion of railway travel, were factors in creating a new literary appetite. The 1890s were a boom period for the short story, and for popular magazines combining illustrations with short fiction.

The Strand Msgazine led the field. It found its star contributor in a Scottish GP named Conan Doyle; and another popular writer in his brother-in-law "Willie" Hornung who invented Raffles, the Amateur Cracksman.

Someone who enjoyed as dazzling a success as Doyle as a writer of stories was a young man who had come to London after working as a journalist in India. His first collection, *Plain Tales From the Hills*, was published in the same year as the first FT and after that Kipling never looked back.

Henry James noted a new tone, in young Ruddy's tales and his verse, the voice of the Cockney, and of other dialects of the common people. Some of the other new short story writers, like Arthur Morrison, went even further along this road and found material in the most disadvantaged areas of London. His *Tales of Mean Streets* (1894) – a phrase taken over in the 1940s by Raymond Chandler – was a minor landmark.

Novelists like Bennett, Wells, Maugham and Swinnerton owed much to this now forgotten pioneer. But there was an immediate reaction against squalor and social realism. Mrs Grundy did not like working-class life on moral grounds. The aesthetes, led by Oscar Wilde, and drawing strength from the writings of Walter Pater and Ruskin, did not like it on grounds of taste and sensibility.

They believed that art (literature, painting, music) should not be a reflection of the squalor of the period but an alternative to it. They were conscious that everyday life was becoming more and more subject to pressures, economic, political, and social, thst were tearing the individual apart. They recommended that the individual recover his integrity by becoming completely immersed in art. By contrast to the hurly-burly of everyday life they aspired to

James Joyce

Thomas Hardy

T S Eliot

an inner serenity; they wanted to be "still as a Chinese jar is still" – as Eliot put it later. This doctrine, which became thoroughly discredited and ridiculed, nevertheless left a permanent mark on most of those writers whom we regard as the heroic authors of the 20th century: James Joyce, Henry James, Conrad, Yeats, Ezra Pound, Eliot, Virginia Woolf, Samuel Beckett and Proust in France. Perhaps only D.H. Lawrence, brought up in Nonconformist Nottingham, escaped it.

It was James who presented the novel as an alternative to life in which life could be much understood better than through the mere process of living. Life left to itself was clumsy (his word) but life as dramatised by the nuvelist had perfect form in which the most delicately poised moral dilemmas could be depicted. In his careful professionsl hsnds the loosely contrived novel inherited from the Victorians was re-structured. He performed the same service for the shorter form or tale.

The teller of the story, the mediating consciousness, whether a subjective "I" or a third person he or she, had a sovereign status which enabled the novelist to achieve a dramatic unity comparable to a stage play. And this immediacy was enhanced by an equally disciplined use of language which traced the whole thought process of the characters as they engaged in conversation with each other.

The refined prose employed by James, becoming ever more refined as his long career progressed, displeased many of his first readers. Wells published a savage parody in *Boon*, but of all the novelists of the Edwardian period, it is from James that later novelists have had most to learn.

James lived right through to the period of the First World War, when he showed his solidarity with Britain by becoming a naturalised Englishman. The war shattered his dream of a perfect form with an appalling sense of revelation: "This then was the meaning of the dreadful years," he said. The next generation of English novelists acknowledged his importance as a supreme master of the form but they could not share in his refusal to face political, social and religious issues head-on. To be sure, Graham Greene has learnt from James but he has learnt equally from Conrad. Since the Second World War the novel has come off its Jamesian pedestal and has presented patterns or models of contemporary behaviour related to particular interest groups, and social problems.

As novel-readers we now have a rich choice of contemporary fiction: the Catholic novel, the Jewish novel, the feminist novel, the Black novel, the campus novel, the South African novel, the Irish novel, the Indian novel, the West Indian novel, to name but a few. Many modern novelists are concerned to show the individual leading his life against the background of the momentous events that have happened in contemporary history, as in The Music of Time sequence by Anthony Powell or (from the vantage-point of the Indian sub-continent), *Midnight's Children* by Salman Rushdie.

It is more than 60 years since *The Waste Land* and the flow of new poetry on both sides of the Atlantic in English is as broad and copious as ever. Modern poets are chary of the wordaholic fugues of a Dylan Thomas, and currently have developed a style known as Martian where the reader cries "eureka!" as the imagery presents itself like the solution to a riddle.

To anyone working in the Square Mile that young American banker's poem will retain its peculiarly haunting appeal with such images as the crowds flowing over London Bridge, the church of St Mary Woolnoth sounding the hour "with a dead sound on the final stroke of nine"; and Mr Eugenides, the Smyrna merchant, who "asked me in demotic French/ To luncheon at the Cannon Street Hotel..." Unlike Bracken House, the hotel no longer exists; but the poem survives.

MUSIC

The British take to opera

Max Loppert surveys the musical scene

THE FIRST Financial Times review of a musical event was published on October 20 1953. It was a notice by Andrew Porter of *Die Walküre* which had been performed the previous evening by the Covent Garden Opera Company (as it then was) at the Royal Opera House, Covent Garden.

By this date, opera had consolidated a secure postwar base in London - the presence of permanent companies at Covent Garden (since 1947) and Sadler's Wells (since 1935, with wartime interruptions) guaranteed the metropolis a larger quantity and more regular supply of opera than ever before in the city's history. Outside London, however, the story was different, and hardly changed from what it had ever been: infrequent performances by touring companies (of very varying musical and dramatic standards).

On October 19 1953, for instance, the Carl Rosa Company were giving *Carmen* at the Grand, Blackpool, and an Italian Opera Company, with stars acclaimed by the London Press ...'Complete Company of 50, Costumes and Scenery from Italy' *La traviata* at the Manchester Opera House. Earlier that month the Welsh National Opera had given a short season in Manchester. There was fringe operatic activity elsewhere – but not a great deal.

Altogether, however, this (plus the tours of the London-based companies) was probably as much operatic activity as any reasonable Briton could imagine taking place in a country still widely believed to be *Das Land ohne Musik*.

Today, the situation is very different. Helped by state funding, permanent professional companies have been established in Cardiff, Glasgow, and Leeds. Kent Opera was set up to cover the South of England with regular touring seasons, as (at a later date and across a wider compass) was Opera 80. In the last year or so, the City of Birmingham has offered a home to a similar-sized group.

And in London alone, the picture is enormously altered. Covent Garden has become one of the world's leading international houses, through which all the important figures of opera are expected to pass (the age of jet travel having, of course, brought with it the increased availability of singers from anywhere and everywhere – and increased wear and tear on those same singers' essentially frail vocal instruments).

Sadler's Wells Opera moved to London's largest theatre, and there became English National Opera, the company giving more performances of opera than any other in Britain. On the subject of Wagner's *Ring* tetralogy alone - the second instalment of which played a part in establishing the FT arts page - who could have guessed that over the next three decades or so the Scottish, Welsh, and English national companies would all mount their own complete cycles (two of them in Andrew Porter's new English translation)?

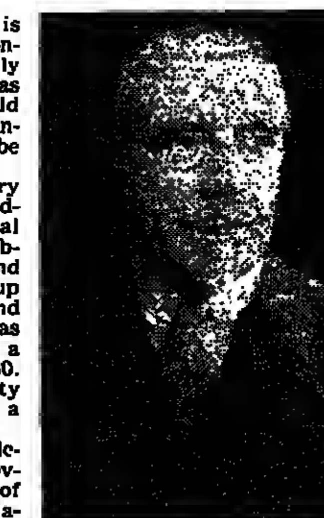
The development of a generation of British Wagner singers eventually to be engaged in many of the world'a great theatres is only one of the many extraordinary features of the postwar British operatic boom.

The causes of this boom are too numerous, complex and closely interlinked to be more than briefly treated here. The most significant were the postwar expansion of music education in schools and colleges, the existence of state funding of the arts, and the growth of those companies already touched on, in which the complicated art of the singer-actor could be fostered and helped to flourish.

All these entities have been subject to serious re-examination during the period of the Thatcher government, a time when the value of state-generated and sponsored art and education has been questioned. This coincides exactly with the period of severe financial constraints under which all the companies have recently been forced to operate (for budgetary reasons Scottish Opera have not played a *Ring* cycle since the early 1970s).

But, however financially pinched, it is impossible to imagine opera returning to its pre-war state. The prominence of the British opera composer (Britten and Tippett, more recently Maxwell Davies, Birtwistle, and Knussen), the British opera singer and conductor, the British opera director and designer, is now a normal feature of the international operatic scene. This alone, and the extraordinary popularity of the well-known operas on record, television, and film, suggests that opera is one of the postwar British growth industries whose growth is unlikely to slow down.

The transformation of the British concert scene since the above-mentioned date in 1953 has been no less startling, but it has been achieved in rather less clear-cut fashion. Symphony orchestras and choirs were the most substantial inheritance from previous musical eras; in the postwar era the decline of the vogue for amateur choral singing has been general, and the orchestras – those outside London as well as belonging to it – have had to adjust to pressures that would have been hard to predict in 1953.



Sir Thomas Beecham

At this date the four independent (i.e. non-BBC) orchestras were all firmly established (the newest being Beecham's Royal Philharmonic), but only the Philharmonia, founded by Walter Legge as a "recording orchestra" could claim a rightful place among the world's front-rank orchestras. In the 1960s, as London became increasingly one of the recording industry's most important hubs, and as the demands of the expanding concert repertory became more exigent, the virtuosity of all the Loodon orchestras grew apace.

This factor, closely linked to the famously quick sight-reading abilities of London orchestral musicians, and to the impermanent nature of their employment conditions, csn fairly be said to have worked against the quality of London concert standards quite as much as on their behalf.

Now, in the late-1980s, with economic conditions far harsher than in previous decades, the independent orchestras are maintaining a precarious existence – and, because of that, taking ever fewer chances on repertory and performers, producing ever greater amounts of repetitious, competent routine, and responding ever more cravenly to tha pressures of the record companies.

In the earlier part of the same decade the City of London may have gained, at the Barbican Centre, its own large-scale concert hall to compete with activities in the Festival Hall. But its existence has so far provided no very striking artistic benefit. It *is*, indeed, noteworthy that at this time the British orchestras most often admired for their msintenance of genuine musical standards are to be found in the

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ARCHITECTURE

From the Gothic to Lloyd's

The profession's role over the past 100 years, by **Colin Amery**

IN 1888 Alfred Waterhouse was the President of the Royal Institute of British Architects. In many ways he represents the link between mid-Victorian and late Victorian architecture.

He also symbolises the energy of his times. He was an incredibly prolific architect and the weight of many of his buildings still lies heavily upon the earth.

Like so many great Victorian figures, Waterhouse successfully combined art and commerce. His Prudential Insurance headquarters in London's Holborn and the Natural History Museum were both relatively new in 1888 - both of them powerful examples of his skill at adapting historical styles to large scale modern uses.

Architects at that date were ingeniously using materials like terra cotta and fired ceramic bricks and tiles and, clearly, as we can see from the excellent condition of their surviving buildings, had a great concern for ease of maintenance as well as decorative liveliness.

Waterhouse was president 100 years ago of a profession that was markedly different from the profession today. There was a much public and private work for architects, and this led some to feel that their profession was simply a commmercial enterprise. It was in 1892 that the debate on whether architecture was art or commerce came to a head, a year in which the RIBA tried to introduce more thorough professional examinations.

The great flowering of architectural competitions helped the profession to flourish, but it was the great growth of private and commercial commissions that created the large scale architectural practices that today are commonplace.

The 100 years covered by this survey began under the influence of architects who were breaking away from the Gothic Revival and the pioneera of modern architecture who were to grow from the roots of the Arts and Crafts Movement.

Architects like Waterhouse and Norman Shaw were to show that there were alternatives to the Gothic. New Scotland Yard which opened in 1890 designed by Shaw showed that the influences of Wren and French castles could be combined to produce a highly influential public building.

In the years when the Financial Times began life in the City of London almost all traces of the Georgian fabric had gone. Wren's churches survived but the new roads like Cannon Street and Queen Victoria Street and the Embankment were already imposing a nineteenth century pattern on a medieval and eighteenth century City. Major public buildings, railway stations and bridges changed the scale of the City.

It was until after the Second World War to remain essentially a Victorian City. The architect, Sir Albert Richardson who designed Bracken House as the headquarters of the Financial Times in the 1950s understood the 19th century quality of the City. His design for Bracken House - an urban palazzn built of fine materials - reminds us today of architectural values that are perhaps more related to the past hundred years than the next.

Architectural debste does not figure large on the pages of the Financial Times in the early years of the century. Mention of new building is principally covered as part of the news about the property industry, and, indeed, architectural criticism scarcely features.

The first architectural correspondent to join the newspaper's staff was Harold Brockman who joined in 1961 although there had been some earlier articles by the architectural writer A.Trystan Edwards. Brockman, the first architectural correspondent to be appointed to a national newspaper, wrote regularly on new buildings until 1978-79 as well as organising the newspaper's influential Industrial Architecture Award from 1967.

His period at the FT coincided with the post war property boom in London as well as the incredible growth in public sector building, both in high-rise tower blocks and new towns.

The initiation of an award to encourage higher standards of architectural design in industry was a major step for a national newspaper. It identified an area in the national life where improvements were sluw and often very much behind other countries.

There was a strong feeling that much of the architectural euphoria generated by the 1951 Festival of Britain was in fact being dissipated and areas of real need, like industry, were not feeling the influence of good design. The award skilfully identified an area in need of architectural inspiration.

A look st the winners of the award since 1967 shows that the judges had a shrewd nose for picking talent. The first award went to the Reliance Controls Factory in Swindon designed by Team 4. This was a firm that consisted of the young Norman Foster and his wife, and the young Richard Rogers and his first wife. The partnership was not to last but the partners were to go on their separate paths to produce several of the leading hi-tech structures of our times.

Throughout the 1970s the FT Industrial Architecture Award successfully picked the win-

The Natural History Museum, Kensington, London

ners. Foster Associates Modern Art Glass Company in Thamesmead, Piano and Rogers's PA Technology and Science Centre, Farrell and Grimshaw's Herman Miller Factory, and in 1980 the first major industrial building by the third member of the Hi-Tech triumvirate Michael Hopkins, his new brewery building at Bury St. Edmunds.

In 1982 the nature of the FT award altered to take account of the changed nature of industry and work. Because architects have such an important role in the creation of the working environment it was felt that the scope of the award should be widened, particularly as the role of heavy industry was changing so rapidly in the UK.

Workplaces like laboratories and hi-tech micro-chip units have replaced much industrial plant, and it was felt that the expanding role of office work deserved some appropriate recognition.The new award - the Financial Times Architecture at Work Award was established in 1982 and has continued the tradition of acknowledging excellence in design. The judges have maintained a healthy disrespect for controversy giving the Award in 1987 to the Lloyd's of London headquarters designed by Richard Rogers Partnership.

While the FT's own award dues recognise the changing nature of architectural practice in relation tn the important client body of business and industry - it is inevitably only a partial barometer of the architectural weather. The last century has seen the move from an artist based profession and acceptance of modern architecture aud design has been slow.

The last 100 years has proved to be a period of enormous changes in the built environment and the applicatinn of technology to architecture has produced very mixed results both functionally and aesthetically.

Colin Amery

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Composer Benjamin Britten: won great popularity

□ Continued from page 28

regions – the City of Birmingham Symphony under its youthful star Simon Rattle, and the Halle under Stanislaw Skrowaczewski.

It is in the field of contemporary music that the most valuable developments in British music have taken place. The 1950s were a quiet time for music; the great 20th century revolutions of style, form, and content appeared to have passed this country by. (Britten, always the most Europe-oriented of British composers, was still being regularly reproached for his 'cleverness', and Tippett, in the decade before his rise to great popularity, was likewise dismissed as an impractical idealist.)

But nevertheless a musical revolution *was* being prepared, stealthily, by young musicians and their trusted mentors in places like the Dartington summer school (run by William Glock) and Manchester. Under Glock, the great modernists of 20th century music were newly examined and appreciatively absorbed; and when in 1959 Glock himself became Controller of Music at the BBC, the same revolutionary enthusiasms were spread much further and more widely.

With the BBC very much in the lead, the 1960s were perhaps the century's most exciting years for British music. Leading 20th century figures – Schoenberg, Straviosky, Webern, Bartok, Messiaen – got a hearing alongside younger Europeans (Boulez, Henze, Stockhausen, Berio, Ligeti) and the protagonists of the so-called Manchester School, Goehr, Maxwell Dsvies, and Birtwistle.

The stimulua thua provided sdded distinct attractions to the attendance of contemporary music concerts (every British appearance of Stockhausen guaranteed a full house).

This wave of popular interest later subsided, but without diminishing the receptivity of British performers and composers to the more distinctive musical trends and fashions of the day. Nowadays, it may be hard for a living British composer to gain access to most of the symphony orchestras, but the existence since 1968 of the London Sinfonietta, without question the world's most important and influential contemporary music orchestra, has ensured the possibility of other outlets; and later new-music enterprises – the annual events at Huddersfield and Glasgow, the wide-ranging Almeida Festival – have sprung up to make the British new-music scene one of the world's most genuinely lively, unstuffy and un-regimented.

In conclusion, it is perhaps worth pointing out – not as a gesture of centennial self-congratulation, but as a simple fact – that in the discovery, assessment, and (where appropriate) support of every significant operatic or musical trend of the postwar period, the influence of the Financial Times arts page on British taste has been crucial.

BALLET

A new public emerges for dance

Ways of dancing and ways of thinking and showing dancing have altered, says Clement Crisp

WHEN, in the mid-1950s, the Financial Times began its arts coverage, ballet in Britain had just ended an exhilarating quarter-century which had seen the creation of s National Ballet, already world-renowned.

The troupe that Ninette de Valois establishad in 1931 at Sadler's Wells Theatre was now The Royal Ballet, a great Opera House ensemble, and an inspiration for foreign companies as well as audiences. Other companies, notably Festival Ballet, Ballet Rambert, and the Royal Ballet's second ensemble, toured indefatigably, and played occasional London seasons.

It was still financially conceivable for great visiting companies – New York City Ballet and American Ballet Theatre, the Royal Danes and the Paris Opera Ballet, and, of course the Bolshoy Ballet, who had made their first revelatory British appearance in 1956 – to travel to these shores without monumental cash problems.

The Arts Page years have seen massive changes in British dance, some admirable, some daunting. Certain strands run persistently through the fabric of this period: funding; ways of paying for ballet, and the growth of commercial sponsorship; the development in Britain of cootemporary dance in its varied manifestations; the quest for a regional identity for dance; the emergence of a new public, younger and more adventurous-spirited, from varied ethnic backgrounds, often educated in dance, and very receptive to innovation; the popularising impsct of television, video and film; the idea of a dance "boom"; the polarisation of an audience and a repertory, which has mean the separation of a public between devotees of classic and contemporary styles.

Thirty years ago, British ballet was still dominated by the two women who had made it possible in the 1930s. Ninette de Valois hsd been intent upon cresting a national ballet, and ahe had succeeded. Marie Rambert was tireless in encouraging new talent and in exposing it oo an intimate acale. By 1956 Ninette de Valois had two companies and the accolade of a Royal Charter, and her audiences were conditioned to an opera-house art, firmly based upon the 19th century classics.

Rambert, victim of harsh commercial necessity, had been obliged to accept this same public appetite, and in order to survive at the box office had been forced to tour versions of the classics rather than those works she had inspired from the fine talents she discovered.

Within 10 years, the collapse of Ballet Rambert was imminent. Reformed and re-formed by Norman Morrice after the fashion of Nederlands Dans Theater, a company dedicated to crossing the traditional gulf between classic and modern dance, the new Ballet Rambert presaged *the single most significant development* in British dance charted in the Arts Page – the creation of a contemporary dsnce school and company.

The visits to London of Martha Graham, and later of Paul Taylor, Alvin Ailey and Merce Cunningham prepared the way for the great expansion – and the great divide – among the dance public. The conversion of a balletomane, Robin Howard, to the emotional and physical attitudes of the Graham style was crucial. Howard's decision to implant Graham technique in this country with the assistance of one of Graham's leading dancers, Robert Cohan, acted as an amazing catalyst for dance feeling among a young section of the public.

The establishing of the London Contemporary School and company in the late 1960s coincided with a much larger interest in dance among Britain's youth. But it is London Contemporary's proselytising tours, establishing residencies where a community could have a week or more's *saturation* in dance, reaching out to schools and colleges and clubs, educating and inspiring the young, which so helped the expansion of dance in the 1970s.

At a time when urban young, from varying ethnic backgrouods, knew much frustrstion due to the tensions of inner-city living, the dance craze was a means of release. It was not only a national trend – New York's outburst of breaking, slamming, and the world of *Saturday Night Fever*, were signs for the *future* – but *it* brought a new energy, snd markedly different demands and attitudes into the mainstream of British dance.

The achievements of London Contemporary Dance and of the new Ballet Rambert, of such schools as Harehills in Leeds, where dance became an integral part of the curriculum of disco championships and the plethora of spin-off troupes from the LCDT stable, and of exponents of Indian and Afro-Caribbean dance, told of changing attitudes. The Dancing British who were hailed in New York in 1949 when the Sadler's Wells Ballet triumphed on its first visit, are today very different in manner but no less remarkable as performers.

And the final canonisation of contemporary dance for British audiences must surely have come with the installation of Martha Graham's company at the Royal Opera House, Covent Garden, during its Bicentennial season in 1976. Twenty years before, the faithful few had been sparsely scattered through the stalls of the Saville Theatre, when Graham first came to London.

Regionalism for dance has been one of the vexed matters of the Arts Page years. At about the time that the provinces became taboo as vocabulary, Elizabeth West and Peter Darrell made an attempt to establish a regional troupe in the West Country, different in style and function from touring or metropolitan companies.

Our pages charted Western Theatre Ballet's progress. Commercial involvement was still a long way off. What WTB eventually achieved as a regional company affected Arts Council policy, and in 1969 the Council engineered WTB's transfer to Glasgow, where it was to become today's Scottish Ballet.

Another regional troupe, Northern Ballet Theatre, was brought into being in 1969. Its chequered artistic history demonstrates a recurrent theme in presenting ballet in the regions: the public's belief in received ideas about the nature of ballet.

Neither WTB nor the later Scottish Ballet, nor Northern Ballet Theatre, began with the intention of emulating an opera house company and showing the traditional classics to the world. Commercial necessity and the reactionary appetites of their public impelled them, as Ballet Rambert was earlier impelled, to abandon novelty in favour of shrunken or "alternative" versions of the 19th century repertory, without the proper forces for the task.

"Never mind the quality, feel the title" has been a recurrent guide to management's dilemma. Touring companies, such as Sadler's Wells Royal Ballet and London Festival Ballet, have had no less pertinent experience of this matter.

When, in 1970, SWRB became a concert-sized group offering a repertory of notable modern work, their loyal public stayed away in droves, clearly feeling betrayed by a company which had won their affection by showing such loved artists as Doreen Wells and David Wall in the classics.

It took five years and a return to the old dispensation to make good the public's loss of confidence. Today SWRB, under Peter Wright's direction, tours its repertory of classics, as well as encouraging novelties in happy creative equilibrium, and remains the most artistically successful company in Britain.

The urgent need for commercial viability means that London Festival Ballet, with an historically rich repertory dating back to its founding days in 1950, could boast at the end of last year that a six-week autumn tour with just *The Nutcracker* could play to 98 per cent capacity, breaking all box office records since the company was founded.

The dilemma of a safe and traditional repertory versus

□ Continued on page 30

The Royal Ballet's production of Manon: Antoinette Sibley as Manon and Anthony Dowell as Des Grieux.

ART

The heartland spreads out

William Packer on a changing art scene

THIRTY YEARS AGO in the world of art the stage was still essentially European, if not actually Parisian. Picasso and Braque were still active, Matisse, Leger and Bonnard not that long dead, Giacometti, Ernst, Miro, Moore and Nicholson still, as it seemed, in full career. The issues, such as they were, lay not between abstraction and figuration – for abstraction then embraced any figurative implicstion – but between the modern and the academic.

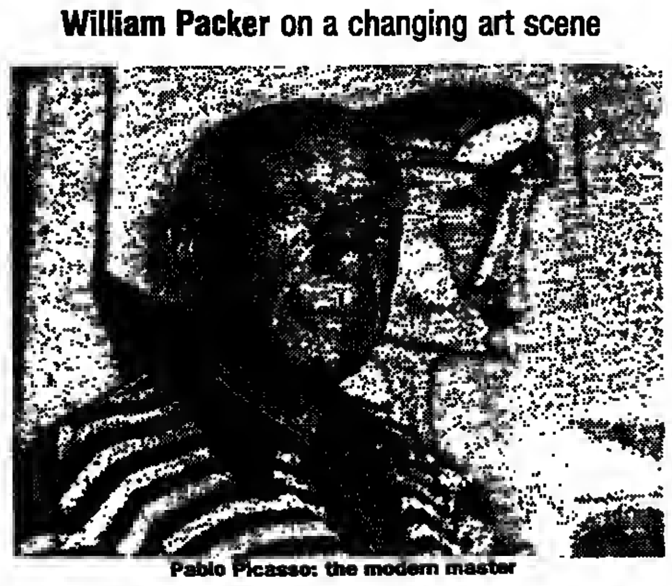
But that world was about to suffer a profound shock. The New York School of the abstract expressionists had been estsblished in its domestic reputation for some time, but it was only now that the work was shown extensively abroad. Its collective influence was all the more profound, perhaps, for the delay.

From comparative obscurity such artists as Msrk Rothko, Clyfford Still, Barnett Newman, Willem de Kooning and Jackson Pollock were accorded overnight the critical standing almost of Old Masters, such was the confidence, or at least the insistence of the American cultural machinery of the time. This, with its immediate developments in hard-edge, post-painterly abstraction and minimalist sculpture, was to be for nearly a decade the New Art, that seemed on the surface to have made all pictorial reference or figuration redundant.

Of course it had done no such thing, but certainly a great many figurative painters, especially those of more open expressionist persuasion, felt for a while threatened and isolated. But figuration never went away: Pop Art, in both its British and American varieties, saw to that, and indeed it is salutary to consider just how many of the artists now in mature and late career worked happily throughout this phase and even enjoyed considerable success when it was at its height – David Hockney, Peter Blake, Michael Andrews, Patrick Caulfield, Allen Jones. Francis Bacon took no notice of it whatsoever and suffered not one bit.

Lucian Freud, too, as Frank Auerbach and Leon Kossoff, simply got on with the work in hand, and all of them now see the wheel come round to their advantage. If figurative art has been revived, it is currently ascendant in its expressionist aspect, both in Britain and the world at large, with Auerbach, Freud and Bacon among the leading exponents. America is no longer pre-eminent, and if its market in modern art remains all-powerful in purely economic terms, it is as a market that now appears to require of its artists neither quality nor any sustaioed originality but only novelty.

Of more fundamental importance, however, than any particulars of swings and roundabouts, movements and individuals, is the simple fact that within the last 30 years we have lived through a great change in the way artists address themselves to modernism and the avant-garde. Until about 1970 it still seemed that the driving energy of modernism was conducted by linear progression, with one avant-gsrde succeeding another, ism by ism, each to be overtaken in its turn. The artist was either with it or out of it, a simple choice. But now that creative energy, though no less a stimulant, is dissipated across a wider front, with its advance in consequence slower and less frenetic perhaps, but also infinitely more various.



Pablo Picasso: the modern master

There was no reason to suppose that the modern movement should for ever follow its hectic, narrow course, any more than that the river should never slow down and broaden as it approached the sea. Who, in any case, is to say that it is indeed the sea and not a deceptive lake, with rapids to start us all off again on the farther side? We live in truly catholic times and for the artist the choice is all.

The heartland of the London art world, now as thirty years ago, is centred upon Mayfair and St James's, about the simple axis between the salerooms of Bond Street in the north and King Street in the south.

But the sheer proliferation of dealers in all the special fields of art, even in this narrow central zone, has been astonishing, and beyond it there seems now to be no limit to how far they might spread. Who, 30 years ago, would hsve thought to venture so far afield as Chelsea to look for anything more than an antique?

Today, if the grander and more specialised Old Master dealers remain concentrated in the West End, the known world of contemporary art is wonderfully extended into Soho and Covent Garden, Belgravia, Fulham, the City, Wapping, Bethnal Green, Camden Town, Hampstead, and outside London to Glasgow and Edinburgh, Bristol and Manchester, Newcastle, Sheffield and Birmingham.

Again, it is not as though the old order has changed, exactly. In the modern and contemporary, as in the Old Master field, many of the old names are still there and doing well.

"Times are hard," has been the dealer's continuous refrain through all these years. Taxes, the strength of the stock market one week and its weakness the next, and endemic British philistinism are all to blame, and yet one cannot but ootice by how much the market-place, at least, has grown. There have been successive bursts of gallery establishment and expansion in the period, with inevitable failures but the general growth has proved remarkably hardy and adaptable.

Galleries indeed are springing up everywhere, with the remarkable recent crop of dealers in the streets around the Portobello Road only the latest manifestation. Where even 10 years ago a day which saw six or seven shows opening was unusual, now there are days on end which may each see from a dozen to a score. It is hardly a question of parties, Press and private views: the list is formidable and the duty unfulfillable to see a bare fraction of the work on offer.

Though he may still elicit a natural sympathy, the days are long past when the young artist actually deserved commiseration for any difficulty he faced in finding a wall on which to hang his work in public. Never has the old truth, that if the work has merit, sooner or later it will have its due, carried more force.

Even before the gallery explosion came the realisation that what is good for a gallery was always as good for an artist. Studio shows are now commonplace and indeed part of the common round of the professional and interested art world. Empty factories and warehouses in London's then less salubrious *quartiers* were colonised from the late 1960s on by ad hoc groups of artists, such as Air-Space, that also served the more general environmental good by insisting that such buildings were useful still.

On the public side the story is much the same, of continuity and yet marked change. The great museums and institutions in the main now put on many more exhibitions than they did 30 years ago, and address themselves to far wider audiences, but costs have rocketed, the exigencies of conservation and insurance have grown ever more restrictive, and governmental support is proportionately less adequate.

Physically, the galleries are all much extended, though they still have too little room for the job our society expects of them, and the roofs still leak indifferently upon the treasures beneath. Without corporate and commercial sponsorship none of it conld now be sustained even at the old civilised level of public support for the public good, *l'etat oblige*.

Our art schools, meanwhile, have been transformed out of recognition and not altogether to the good. It is a long story, too long for the present occasion, but it is enough to say that an over-trusting good faith on the one side was met by executive mendacity and duplicity on the other. Reform, some of it misguided, implemented in the mid-1960s by an access of funds for building and expansion all too soon revoked out of cynical political expediency, was thereby vitiated.

There has followed over these 20 years past a steady economic and practical attrition by which courses and indeed whole schools that had been assured of protection have been exposed. There is no end to it, even now. It is remarkable how well our art schools, by the quality of their graduates in all disciplines, continue to serve a community that misunderstands and, in effect, despises them. They do far better by us than we deserve.

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Continued from previous page

A new public for dance

novelty and bankruptcy is exacerbated by entrenched public taste and by financial stringency. Ballet's costs have inevitably spiralled. Productions are now budgeted in hundreds of thousands of pounds, touring has become prohibitively expensive for many large ensembles, and audiences at home and abroad suffer thereby.

The anxieties imposed by inadequate state or local subvention find little alleviation at the box office, and the current report of the Royal Opera House, Covent Garden, cites that theatre's 46 per cent grant as a dire comparison with other major European houses which claim more than 70 per cent of their income in state funding. Other companies are in no easier situations, and the inevitable cutting of corners and reductions in creative or touring activity serve but to impoverish the art.

As chief paymaster to the majority of dance organisations, the Arts Council has been accused of providing too little, too late. Thus, self-help, or rather, commercial help, has become the most impresaive area of financial development during the past decade. Sponsorship is now vital in funding all kinds of dance.

In 1976, when the Association for Business Sponsorship of the Arts was founded, private sector cash amounted to £600,000. In 1988 it stands in excess of £20m, and every aspect of dance – production, touring, educational work, even the existence of theotres – reflects a reliance upon this source of income.

Theatres have themselves been part of the vexations of the years. A decline in the number of major companies visiting London is attributable to the lack of a dance house in the capital to provide a stage and auditorium of fitting proportions.

The Royal Opera House and the Coliseum are shared with opera companies, and Sadler's Wells suits only medium-sized ensembles. The Royal Festival Hall's shelf-like stage has not prevented Festival Ballet from playing long and very successful seasons, but it has little to recommend it for dance.

The use of a tent in Batterses Park and in the regions by the Royal Ballet has been a poor and sometimes sodden stop-gap. Outside London, the refurbishing of the Birmingham Hippodrome provided s first-class dance house, and other regional authorities hsve become aware of the need for improved facilities for dance. But London's problem, much aired of late, has not been solved. Until it is, our dance life must be seen to be now more restricted in international interest than in years past.

A significant swing in public taste has been the increased appetite for full-evening ballets. The pattern established by the popular classics was to bring the creation of full-length works for the Royal Ballet by Ashton – notably *Ondine*, *La Fille mal gardee* (one of the happiest premieres ever reviewed in these pages), and *The Two Pigeons*.

There followed long ballets by John Cranko for his Stuttgart troupe, and then the enduring full-scale works by Kenneth MacMillan: *Romeo and Juliet*, *Manon* and *Mayerling*, which have become staples of the Royal repertory.

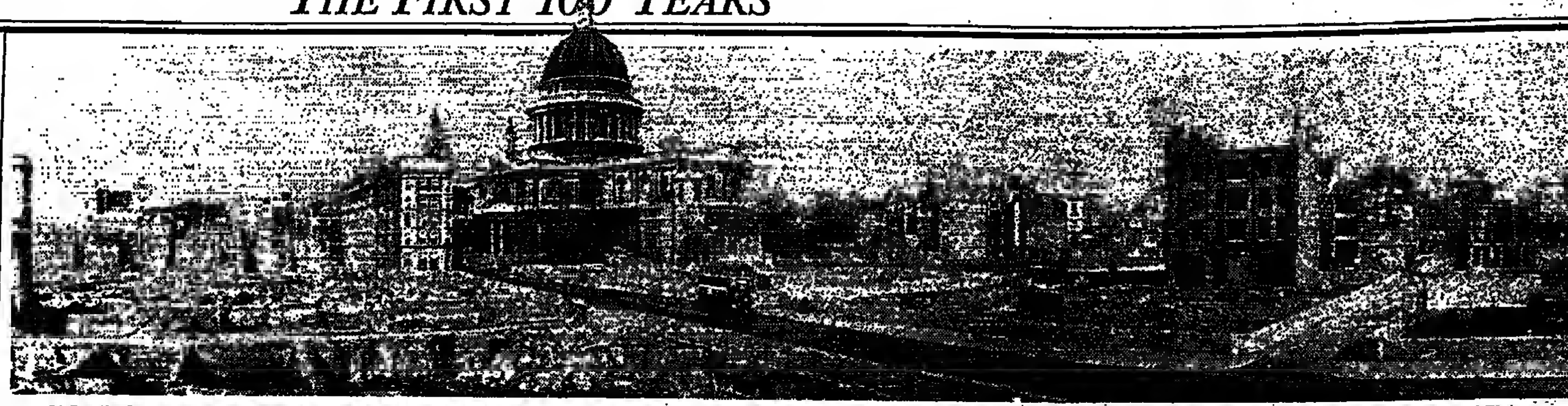
Ballets such as these have, with the classics, served to provide those essential vehicles for star performers who dominated, and still dominate, public affection – among them Fonteyn, Nerina, Beriosova, Lynn Seymour, Antoinette Sibley, Anthony Dowell, David Wall, and the trio of Leningrad stars, Natalia Makarova, Rudolf Nureyev and Mikhail Baryshnikov.

It is the latter two who also typify another theme of these years – the male dancer as public hero. It was Nureyev, catapulted into the limelight when he fled the Kirov Ballet in Paris in 1961, who imposed the new image of the male star upon the world.

A force of nature, he has danced, choreographed, and travelled more tirelessly and more adventurously than any other performer of our time. He made male dancing news, and a decade later the genius of Baryshnikov consolidated this view of the danseur.

The creations of Maurice Bejart for his Ballet of the Twentieth Century also propounded the view thst "Dance is man" – a riposte to the idea thst "Ballet is woman" which was the credo of George Balanchine, whose ballets and whose New York City Ballet represent the most brilliant affirmation of classical style during the Arts Page years.

They have been years of prodigious change. Ways of dancing, ways of thinking about dancing, ways of showing dancing, have altered. Surveys such as this tend to encourage a morose view that things are not what they were, and that it was better then. If standards of classical dancing seem less dazzling here than they once did, the potency of the academic style with New York City Ballet, the Paris Opera, The Bolshoy and Kirov Ballets, has never been more thrilling.



St Paul's Cathedral survives miraculously amid the rubble of the City of London after World War Two. The site (foreground) was later developed as the headquarters of the Financial Times.

Continued from page one

Spanning across a century of change

Aluminium take-over battle of 1958-9, when he successfully stood out against the City establishment of the day - on establishment that included Lazards, whose owners, Pearson, had recently become owners of the FT itself.

There was, however, infinitely more to the new FT than improved City coverage. As early as 1944, looking ahead to the post-war FN that in fact became the post-war FT, Parkinson had written a key memorandum arguing that in the conditions likely to obtain, what would be needed was something going well beyond the traditional remit of financial journalism. The post-war world he envisaged included a smaller stock market, 'where booms are regarded as against public policy and speculation is frowned on', but where 'vast numbers of people' would be 'interested in production, employment, wages, the state of trade, prices, exports, taxation, overseas balances, etc, who never thought about such things before'. It was that demand that a new-style financial paper would have to meet, and Parkinson added: 'From the Daily Mail onwards, the big circulations have come from tapping new markets'. It was a brilliant vision and utterly justified by subsequent events. Reaching out to a fresh type of readership, in particular the expanding managerial class, in order to supplement its traditional appeal, and held together first by Parkinson and then by his brilliantly intuitive successor Gordon Newton (justly knighted in 1966), the post-war FT was to prove a phenomenal success story, with sales by the mid-1960s reaching some 150,000, a circulation unimaginable in the pre-war world of financial journalism.

What did this transformation of the paper comprise? Perhaps the best indication lies in the words that from 1953 were sited for 13 years under the mast-head and which simply stated: 'Industry • Commerce • Public Affairs'. Of this trinity of new aspirations, industry was perhaps the key one, at least initially. A team of industrial correspondents was in place in the provinces by the late 1940s, and with the freeing of newsprint came fully to the fore over the next decade.

Comprehensive and markedly detached labour coverage was also now developed, reflecting the new prominence of the trade unions; while the beginnings became apparent of systematic scientific coverage (with the paper's first scientific correspondent being one of the great thermodynamicists of the age, Francis Simon), so that by the mid-1950s there were new columns like 'Scientists' Notebook' and 'New Products'. The coverage of commerce often took the form of highly specific feature articles, usually written by young and very intelligent Oxbridge graduates, and tended to enjoy titles like 'Cut-Throat Competition' (about the razor market) and 'Sticky Times for Sweets'.

New columns began on advertising and the retail trade, while consumer coverage also developed, especially under the auspices of Sheila Black from the late 1950s. Finally, on the public affairs side, there was, taking the term at its broadest, greatly expanded political coverage and analysis; the transformation of 'Men and Matters' into a more or less high-powered gossip column; the coming of 'Justinian' to offer expert legal comment; the emergence of perhaps the best Arts page in the country; and much more besides. All in all, the words of Cecil King in 1964 could not have been more apposite: 'A paper that has come up in the world is the Financial Times. Instead of being a paper read simply by the City and stockbrokers, it has become the serious paper in its own right.'

However, the great focus of attention during these post-war years became and then remained the state of the British economy, which was widely seen as recovering well enough in its own terms, but increasingly lacking a competitive edge in relation to its rivals. As early as April 1946 themes were stated that would be reiterated by the FT many times afterwards, including in the wake of devaluation three years later:

'Britain is piling up a large burden of social services in outlays on health, education, national insurance, family allowances and subsidies for housing and for food. We are a nation of producers with an ever-increasing overhead of social charges, and with an ever-expanding realm of doubtful experimentation in State-control. When we have topped our potential wave of prosperity, how shall we deal with the potential challenge of reviving German and Japanese exporting industries, now temporarily out of commission?'

Through the 1950s the paper's approach towards economic policy-making oscillated between a market-oriented approach on the one hand and the more fashionable 'Butskellism' on the other, with the latter more often prevailing. In policy-making practice the cause of economic liberalism tended to be wedded to the cause of defending sterling and thus the sterling area, a cause that loomed large over all economic debate. A case in point occurred in January 1958, when Chancellor Thorneycroft and two Treasury colleagues resigned over a question of public expenditure. Whereas The Times accused Macmillan of 'flinching' in not supporting his 'courageous' Chancellor, and Wincott in his FT column lamented the Keynesian fact that internal policies continued to take precedence over the external value of the pound, the FT itself supported the Prime Minister and looked forward to a somewhat more expansionist policy under a new Chancellor, though it was compelled to add that such a policy would have to be 'inside the limits set by confidence in the pound'. There was the rub, and it would remain so until the second post-war devaluation in 1967.

Intimately related to the economic debate was the whole question of Britain's place in the post-war world. The first big test was her involvement in the Korean War, when in the course of 1950-1 the FT showed no disposition to deny the underlying national assumption that Britain's place remained on the top table, irrespective of the damage (of which it was keenly aware) caused thereby to the domestic economy. By February 1956 - before the humiliation of Suez - this had changed, as a leader entitled 'All the Burdens', following cuts in industrial investment, made clear about 'the attempt to carry too great a defence burden':

'Judged by manpower, industrial capacity or economic potential we are not a world power in the same sense as the United States or the Soviet Union. It is to that fact, and to the ultimate dependence of our whole position in the world on productive investment, that we must adjust our thinking'.

The chief leader writers at this time were Andrew Shonfield and William Rees-Mogg, perhaps the most powerful and also readable team in the paper's history. Later in the year in the wake of Suez, towards which adventure the FT adopted a generally neutral stance - they further developed their themes, arguing that 'only if Britain's economic resources are devoted to economic growth, above all else, shall we be able to make progress during the next 20 years', with the alternative being the 'high cost, low investment, high tax and low incentive economy' that, since the war had shown itself capable of absorbing money as dry desert sand will absorb water, with little lasting benefit to itself'. In short, anticipating the future withdrawal from imperial or global responsibilities, east as well as west of Suez: 'We must put the economic strength of the country first - whatever consequences may follow from that'.

Would a new role in Europe be one of those consequences? Through most of the 1950s the FT shared the general British scepticism towards a more unified Europe - for instance in 1960 describing the Schuman Plan as 'fatally hampered by the vagueness of its central idea' - and did not even seriously consider whether Britain should attempt to participate in the emerging Common Market. But by 1959, earlier than in most papers, the hope was starting to be expressed that the less ambitious European Free Trade Association, of which Britain was a member, would become part of wider union with the EEC, rather than being part of an economically divided Europe. It was, however, the political dimension that particularly appealed to the editor Gordon Newton, who at about this time was persuaded by Robert Schuman and others that in European unity lay the best means of preventing future warfare on the Continent. Or as a leader put it in January 1960: 'As a factor ensuring the political stability of Europe the importance of the Common Market cannot be overestimated'. 'Undoubtedly right' was the paper's response when Macmillan announced in July 1961 that Britain would be applying, with almost complete confidence being expressed that industry would be able 'not merely to withstand competition in its home market but to take full advantage of the greater opportunities opened to it abroad'. While as for the much-vaunted argument concerning loss of independence, that was briskly disposed of: 'There is no reason to suppose that adhering to the Treaty of Rome will impose on us a surrender of sovereignty which is not more than outweighed by the benefits which we shall derive from membership'.

By this time the brief 'never had it so good' euphoria of 1959 was over, and the FT now not only looked to the European community in general, but to French-style economic planning in particular as means of solving Britain's economic problems. This latter tendency was very much the fashion of the early 1960s and was first clearly shown by the general support given to the creation of the corporatist National Economic Development Office in 1961. In the case of the FT, it reached a climax in January 1963, in the bitter and traumatic context of General de Gaulle's *Non*. Calling on the government to overcome the disappointment and 'go all out for a faster rate of economic growth', the paper pulled no punches about how this was to be achieved:

'It means knowing precisely what one wants and dealing ruthlessly (as ruthlessly as the French planners, perhaps) with all the mental and physical obstacles which stand in the way ... If the Government is able and ready to do this, to provide the country with the leadership and sense of direction which at present it often seems to lack, there is little doubt that people will respond quickly and at last produce a British economic miracle to match the rest'.

The interesting thing, however, is that over the next few years, and indeed over the ensuing decade and a half of corporatism's heyday, the FT did pull back when confronted by planning in practice. As early as October 1963, scorn was poured on Wilson's famous white heat of technology speech as 'inclining towards the magical view of life'.

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THE FIRST 100 YEARS

Continued from previous page

while within weeks of Wilson coming to power in October 1964, the tone was almost one of grim pleasure ('Gone is the illusion that growth can come from talk. Gone is the illusion that planning can ignore finance ...') at the paper was at best lukewarm towards the short-lived Department of Economic Affairs' much-trumpeted Nationol Plan ('a small but not unpromising baby'), and the following January was distinctly cool towards the proposed establishment of an Industrial Reorganisation Corporation, flatly stating that 'if ministers are really anxious to work with the City and with industry, their aim should be to supplement the working of the market, not to subvert it'.

Yet whatever the specific reservations about corporatism in practice, there is no doubt that the FT as a whole during the 1960s broadly subscribed to, and indeed greatly benefited from, the prevailing spirit of the age, which saw economics as lying right in the centre of public and political life, did not question the principle as such of detailed economic planning on the part of the state, and, in general, placed professionalism at the highest possible premium. In short, ministers of technology were in, fourteenth earls who counted with matchsticks were out. It was thus entirely appropriate that when the paper early in 1967 started two new daily features, as part of an expansion programme to counter the imminent threat of The Times Business News, these should hove been pages devoted to technology and management. The emergence of the Technical (now Technology) page reflected the post-war explosion of scientific industrial research; while the *Executive's World (now Management)* page grew out of the strong contemporary belief that a more technocratic or 'Harvardised' approach towards the management of industry would almost single-handedly transform the economy at large.

In November 1967 the value of sterling was reduced from $2.80 to $2.40 to the pound, the 'pound in your pocket' was declared safe, and the FT announced that 'the ball is over'. Devaluation effectively signalled the end of the sterling area and meant that the City of London would have to look elsewhere if it was to remain a major international player. Crucially, though not entirely recognised at the time, the US cavalry now crested the hill in the form of the Euromarkets, which after small beginnings in the late 1950s were gathering such momentum that by 1970 the Eurodollar sector had grown to some $45bn and the Eurobond market to only a little less. *Devaluation also had* important implications in the wider sphere, being yet one more blow for any lingering Imperial role and thus a further push towards a European orientation. By December 1969 the General had abdicated the political scene and his successor, Pompidou, was able to lift the French veto on British entry to the Common Market. 'There may be no such thing as an agreement of principle', the FT declared in hopeful if cautious mood, 'but a new era for Europe may have begun at The Hague'. It was an era, moreover, that would not only involve British membership, but also a move away from 'an essentially Gaullist Europe of loosely linked nation states' and towards 'a Europe which is intended to move, however gradually, towards economic and political integration'

Such was the background - the need for a renewed internationalism, going beyond traditional ties and sentiments - against which the FT during the late 1960s embarked upon a further phase of its development, taking the form of a dramatic increase in representation abroad and coverage of foreign news. The key figure was the foreign editor, J.D.F. Jones, who during his eight years in the position (1967-75) both developed the existing 'stringer' network of correspondents to a point where there were more than a hundred round the world and increased the number of full-time foreign correspondents abroad from a mere handful to almost thirty, which was more than any other paper in the world employed apart from the New York Times. He also developed the concept of the regional specialist, of whom by the late 1960s there were about ten, based in London but travelling abroad frequently. Altogether it was a transforming exercise - at a time when most papers were cutting back on their foreign staff

Major global events of the early to mid 1970s both vindicated and consolidated this strategy. Between 1971 and 1973 the international monetary system established almost 30 years earlier at Bretton Woods irrevocably broke down. 'Floating now Respectable' was the title of the leader given to the results of the Paris meeting of finance ministers in March 1973, and the FT argued forcibly that 'the more that national monetary authorities can resist the urge to intervene in the exchange markets the better'. The year was not out before the momentous oil shock, involving an almost overnight quadrupling of oil prices and an abrupt end to the West's assumption of automatic, even painless economic growth. 'History has always shown that it is unwise to try to exploit a monopoly position ruthlessly', the paper warned the Arab oil-producing countries at the end of October 1973, but two months later it was rather belatedly, if resolutely, accepting that things would never again be the same:

From the ravages of 1973 there emerged a rather different world: the breakdown of Bretton Woods meant that international affairs

Brendan Bracken: the man behind the merger between the Financial Times and the Financial News.

would become more market-dominated than government-dominated; the paramount importance of OPEC would put economic news into the top rank of world affairs; and with the expansion of internationol capital markets (fuelled by petrodollors), the continuing growth of multinational companies and the influx of foreign banks, the City of London would become ever less parochial. The opportunities for a London-based international business paper were very great.

Yet for much of the 1970s the atmosphere in Bracken House was slightly akin to that of a bunker, and a major reason for *this was the seemingly irresistible* rise of trade union power, not least in the newspaper industry itself. A leader of July 1972, written in the context of dockers being gaoled under the Heath government's Industrial Relations Act (which the FT had supported) and an ensuing state of industrial turmoil, caught the tone, one that prevoiled in Whitehall as well as Fleet Street:

'The Government must persuade the public that what is ot stake now is the way in which this country will run its affairs. Will the country accept that the wishes of the majority and the law must be respected, that the interests of all those who cannot protect themselves against inflation are nonetheless legitimote and a motter of concern to all? Are we to go back to feudal times and the over-mighty subject who pursues his ends and his alone no matter what the cost to anyone else or are the normal political processes to be allowed to work?'

It was a theme that recurred during the miners' strike of 1974, when according to the paper 'the heart of the present matter, ironical as it may seem, is that the Conservative Government is rightly unwilling to let the miners bring back unfettered free enterprise into the running of the economy'. Over the next five years - *years of 'stagflation'* - the FT's ottitude towards the ambitions of the unions continued to harden. The Bullock Report on industrial democracy earned the combative response thot 'industrial management, already tried exceedingly hard, is now ready to fight back'. While as for the economic resolution adopted by the TUC in *September 1978*, 'it would be hard to contrive a recipe more likely to provoke inflation and inhibit growth than the blend of job protection, higher public spending, tighter price controls and confiscatory attacks on wealth applauded by the delegates'

There was an alternative - and it was a 'counter-revolution' in which the FT played a significant part, especially through its economics commentator Samuel Brittan. In the late 1960s he had abandoned Keynesianism and been converted not so much to Milton Friedman's specific views on correct monetary policy as to his tenet that, in Brittan's words in 1989, 'the authorities have no more than a temporary power to influence output and employment'. The FT itself over the next decade was a more sluggish and less whole-hearted convert towards monetarism and away from demand management - and did not quarrel with Heath's U-turn in 1972 - but in 1974 it described the proposed National Enterprise Board as nonsense; in 1975 it expressed the belief 'that incomes policy can be no more than a temporary expedient, inevitably accompanied by many disadvantages'; and in 1976, in the context of the major sterling crisis that September and the calling in by the Labour government of the IMF, it stated that what was necessary was 'to tighten the money supply more effectively' and 'to cut public expenditure still further'. Matters came to a head during the 'winter of discontent' of 1978-9, when Brittan hailed the union leader Moss Evans as 'a hero of the hour' for rejecting any further pay norms and a leader headed, 'Back to the pig trough', argued that 'the undignified tussle over wages' was 'not so much an outbreak of anarchy as o return to normality'. The spirit of economic liberalism was beginning to rule, and on election day in May 1979 the FT's leader rejected the Labour vision of the future as 'grey and drab and stifling of individualism', preferring instead the Tory belief 'that it is the role of the individual rather than thot of the state which is crucial'. In sum: 'The time to arrest the trends of decades of post-war history is now. The task will hove to be approached with great care and patience. No one can be cer*tain that* the 'Tories will succeed. But they must be given the chance to try'.

The leader was called 'A change of direction', and so it proved.

1979 was also a historic year in the history of the FT, for on Jonuary 2 there began o separate Continental edition printed in Frankfurt for distribution both in Europe and North America. The immediate reason for this step was to improve what had been rather erratic distribution in those areas, but it was a decision, taken in 1977, that had two important long-term implications: firstly, an acceptance that, in the context of o depressed domestic economy, the best hope for future expansion lay in boosting readership and advertising abroad; and secondly, an increasing debate within the FT about the very nature of the paper and its market. Editor from 1973 to 1980 was M.H. ('Fredy') Fisher, an internationalist by background and temperament, and under his direction the paper engaged during the late 1970s in what was essentially a process of redefinition, in broad terms shaping its character for the 1980s. Underlying it was an acceptance that the central function of the FT was to address itself as thoroughly and systematically as possible to a certain fairly well-defined market, in terms of type of reader, and that it would be folly to risk losing (or even diluting) that market by attempting to be a generalist poper that, historically and by collective temperament, the FT was not designed to be. In practical terms, this redefining process took three main forms in the late 1970s: much improved and expanded internotionol financial coverage, especially in areas like the Euromarkets and international company news; the start of a cutting down in certain peripheral areas, most notably sport, which by the 1980s was reserved for Saturdays only; and in foreign coverage, greater emphasis not only on the key business areas of North America, Europe and Japan, but also within those oreas on the economic aspects. Or as the question was put a few years later to a would-be Paris correspondent: 'Are you as happy to cover Renault as Mitterand?' Out of the redefining process as a whole there emerged a paper on the one hand more speciolist but still capable of the broad brush, on the other more international in tone, perspective and range.

The early 1980s were marked by the deepest recession for half a century, caused partly by the second oil shock and affecting the whole of the industrial West. The FT naturally devoted considerable ottention to its effects - typified by a notable fifteen-part series in the autumn of 1980 on British companies entitled 'Wrestling with the Recession' - but it also consciously sought at the same time to provide a strong and positive focus on the new, 'sunrise' industries where it believed much of the future lay. Computers, electronics, telecommunications - all these were now coming to the fore and receiving from the FT sustained treatment of an increasingly international nature. As for the policies being adopted by the West to counter the recession, the paper was generally sceptical of Reaganomics (the economic equivalent of 'what cricketers call o Chinese cut', it was to call the Administration's deficit financing), but supported the opproach of the Thatcher government during its first two or three highly fraught yeors, as inflation declined to come down and unemployment climbed to unprecedented post-war levels. The crux was probably Sir Geoffrey Howe's unexpectedly harsh Budget in March 1981 ('Lack of help for most sectors shocks industry' was the front-page hcodline), when the paper praised the Chancellor for his courage in sticking to the controversial medium-term financial strategy. It was on important moment in the history of Thatcherism; and the FT's had become an increasingly influential voice. By 1983 the economy was palpably improving and the paper's election-day leader praised the Prime Minister for hoving 'shown that it is possible to break with the past' and in particular 'forced people ot many levels in British society to understand that their prosperity *depends on their own efforts, and* they cannot count on government to bail them out'.

Editor by this time was Geoffrey Owen, who in 1982 was responsible for steering the paper through the charged waters of the Falklands War. 'Jingoism is not the way', it declared on the day that the British task force set sail, and over the next ten weeks, amid an atmosphere that was feverish, muddled ond at times unpleasant, it adopted a notably cool; considered approach to the question of British policy. The line throughout was that it might come to war in the end, but that it must not do so until all possible means of negotiation were exhausted. There was also an insistence that Britain should not engage in hostilities until a coherent long-term plan for the future of the islands had been thought out: 'Fortress Falklands' was not such a plan. The FT's restraint and maturity by no means won universal approbation - 'the City of London is not a hiding place for the wets and weaklings', wrote one angry reader - but did the poper much credit.

Yet, paradoxically, the big story of the 1980s was probably the global financial revolution, thus involving on the part of the FT an increasingly international rediscovery of its financial roots and, approaching the end of its first century, a coming of full circle. The liberalisotion and internationalisation of the markets, the rapid *erosion* of traditional barriers between different types of institutions, the growth of banking as an industry in its own right, and the increasingly fierce battle for personal as well as institutional savings were all developments, along with many others, that demanded continuous and sophisticated coverage.

Responding to this the FT not only improved journalism but also produced new statistical instruments, including the FT-SE *100 Index from 1984 and the* FT-Actuaries World Indices from 1987, the latter seeking, in the context of global trading, both to provide a benchmark for judging the performance of international investment managers and to indicate the health or otherwise of the world's capitalist economies. The fundamental financial event of the decade was, of course, '*Big Bang*' in the City of London on October 27 1986, and the FT marked it with a comprehensive 48-page survey putting a much-hyped day into valuable perspective; while in the main body of the paper a leading article welcomed the 'vast increase in competition' it heralded, before sounding a warning note:

'Uncertainty and volatility in the international monetary system currently permit those who live off capital flows to earn above-average returns. But bankers cannot defy the laws of economic gravity by earning more than their customers for ever. Nor is there any correlation between a sophisticated financial system and a successful economy; if anything, hyper-active capital morkets impose a *short-term view* on industry and inhibit real investment. In short, 'financial efficiency must not be allowed to become an end in itself'.

On the most important single day in the history of the City, let alone the Stock Exchange, it was o salutary reminder that the FT was also devoted to the causes of industry, commerce and public affairs.

By its hundredth year, the paper was in excellent health, commercial as well as journalistic. Five years of a bull market, to be rudely shattered in October 1987, had helped to produce record advertising; circulation at over *300,000 was also* a record, with over a quarter of that readership coming from overseas, further helped by the decision to print from 1985 in New York in addition to London and Frankfurt; and the newspaper revolution of the winter of 1985-6, taming the power of the print unions, hod at last allowed realistic *plans to be formulated for the* full-scale introduction of new technology in the paper's production. The FT itself - editorially independent, dispassionate in approach, liberal in values, and mercifully free of egoism or vanity - was widely recognised as not only the jewel in the crown of the British press, but also as one of the great newspapers of the world.

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IF THE financial and economic history of the past century has a central theme, it is the love/hate relationship between governments and markets. How much to intervene and when to intervene? These have been the perennial questions.

When investors picked up the first issue of this newspaper in 1888, there was little doubt about the answer. Laissez faire was the dominant ideology. Great Britain, although already past her prime, was still the intellectual and financial capital of the world. She was committed to free trade and small government and so, willy-nilly, was much of the world economy.

A quarter of a century later, in 1913, the calm, stable world of 19th century liberalism was about to be shattered for ever. But even if the First World War had not intervened, time would have run out for the liberals. The working classes were becoming more restive as trade unionism gained ground. Pressures for higher public spending, especially on welfare, were growing.

Another 25 years on, in 1938, laissez faire had been almost totally discredited as a political philosophy. The Great Depression of the early 1930s was widely seen as proof of the fallibility of Adam Smith's invisible hand. Markets - especially financial markets - were regarded as chronically unstable and in need of firm management by government.

The reader of the Financial Times in 1968, another quarter century on, would have reflected smugly on the wisdom of the post-war Keynesian consensus. There was little talk then of the magic of markets; governments confidently "fine-tuned" their economies, regulated their financial sectors and built up their welfare states. Who could complain? Growth was rapid, inflation low, and unemployment almost unknown.

In 1988, the social and financial landscape is very different. A conservative revolution has swept the world. The dominant political ideology is closer to the laissez faire of 1888 than to the interventionism that blossomed in mid century.

The wheel's full turn

Whether or not to intervene in the workings of the market has been a continuing dilemma, reports Michael Prowse

Big government is out of favour. Economies and financial markets are being deregulated. Taxes are being cut. The need for equality is denigrated.

The wheel in short has turned almost full circle. Will it keep on turning - or has it reached a final resting place? Will financial instability, high unemployment, trade friction and international debt crises eventually discredit the new "hands off" philosophy, as they did in the 1930s, and lead to re-regulation and aggressive public sector intervention?

Or are these mere teething problems for a late 20th century liberalism that will eventually flower in a new era of growth, stability and prosperity?

The answer will not be apparent until the Financial Times is well into its second century. For the time being, we can only try to learn some lessons from history. The past century divides rather neatly into four periods: British dominance and the Gold Standard (up to 1914); inter-war depression and instability (1919-1939); American dominance and Bretton Woods (1946-71); and post-war confusion (1971-).

The Gold Standard era tends to be viewed through rose-tinted spectacles. It has frequently been hailed as a unique epoch of tranquility, civility and prosperity: an historical repudiation of the thesis that economies can prosper only if demand is managed and markets regulated.

For example, Professor Leland Yeager, a leading US monetary historian, argues that "people were freer from government regulation - freer to transact any honourable business as they saw fit, to make investments, to transfer funds, to travel without formality - than in any age of history before or since".

He notes that Phileas Fogg (the hero of Jules Verne's *Around the World in Eighty Days*) was able to pay his expenses "from a carpet-bag full of Bank of England notes" that were acceptable everywhare. Fogg crossed national barriers with impunity and took for granted the existence of an international means of payment that was not liable to sudden appreciation or depreciation.

Keynes, in *The Economic Consequences of the Peace*, wrote eloquently of the joys of pre-war economic life. Capital and labour were certainly exceptionally free in the 40 years running up to the First World War: vast quantities of both migrated from Britain to the US, the colonies and the developing world in search of higher returns in relatively empty lands. But the economic achievements of the period can be overstated.

Dr James Foreman-Peck", an economic historian at the University of Newcastle upon Tyne, dismisses as "chimerical" the notion that this was the time when "capitalism functioned best". Growth in real output per head in the sixteen wealthiest economies averaged only 1.5 per cent a year between 1870 and 1913, compared with 3.8 per cent per annum in the 20 years of managed growth after the Second World War.

During the Victorian era of total factor mobility, world trade growth averaged 3.3 per cent a year; during the Keynesian consensus years of the 1950s and 1960s, when both capital and labour flows were tightly restricted, it averaged 8 per cent.

But more importantly, the Gold Standard era offered an attractive life-style only for a tiny upper crust. For the majority, hours of work were long and conditions extremely poor. There was no security against unemployment, sickness or old age. The distribution of income and wealth was grossly unequal.

Moreover, the tranquility was more imagined than real. Economies were racked by periodic recessions and financial crises. The UK, for example, experienced slumps in the late 1870s, the early 1880s and in 1907. The Gold Standard was the root cause of some of the instability.

It is asking for trouble to link a currency absolutely rigidly (and at some arbitrary rate) to a precious metal. Differences in growth and productivity between countries have to be met by internal price and quantity adjustments rather than by exchange rate adjustments. If wages are sticky downwards, as is almost always the case, unemployment is the price paid by weaker countries for the prized link with gold.

Britain's anchor role in the Gold Standard system led to a prolonged overvaluation of sterling. This dampened growth, encouraged the export of capital, and helped Britain lose its early industrial lead. Indeed, at the turn of the century, concern about lost manufacturing competitiveness was running at fever pitch, as Dr Foreman-Peck points out.

Books such as E.E. Williams's *Made in Germany* (published in 1896) created a xenophobic scare about commercial decline and rising imports.

The Gold Standard did not even achieve price stability. UK wholesale prices fell by about 50 per cent between 1875 and 1895, before recovering in the run up to the First World War. And artificial exchange rate stability led to pronounced interest rate volatility. The Bank of England's efforts to influence gold flows and so maintain external equilibrium obliged it to change interest rates 49 times between January 1904 and December 1914.

In contrast with the Gold Standard era, few attempts have been made to beautify the inter-war years. For economic liberals, the period 1919 to 1939 is one best forgotten. The catalogue of economic mistakes included: the unwise reparations imposed on Germany (and the country's subsequent hyper-inflation); the transitory return in the mid-1920s to the Gold Standard at quite inappropriate exchange rates; the Wall Street stockmarket crash of 1929; and the Great Depression of the 1930s.

Characteristics of these years were a meanness of spirit in international negotiations, policy passivity at home, and a craving for the "blessed normality" of the pre-1914 world. The perils of looking to the past rather than the future in economic management are amply illustrated in Britain's dogged battle to return to gold at the pre-war parity. The policy ignored the huge changes in relative price levels that had occurred since 1914 and the fact that an anchor for the system no longer existed. The US was not ready to assume global economic leadership; Britain was incapable of exercising it.

The restored Gold Standard was subject to all manner of pressures. Quite apart from the initial exchange rate misalignments, some countries failed totally to play by the rules. France and the US in particular seized the opportunity to absorb a large fraction of the world's gold stocks without adopting the expansionary macroeconomic policies that gold inflows were meant to entail.

Indeed, R G Hawtrey, the UK Treasury economist, likened the Bank of France to a boa constrictor swallowing a goat: once it started taking in gold it could not stop even if it wanted to.

Britain finally accepted the inevitable and floated the pound on September 20, 1931. The preceding financial crisis had been inflamed by the Macmillan Committee's acceptance of sterling's overvaluation (it subsequently fell by 30 per cent) and by the Labour Government's failure to appease the City with cuts in unemployment benefit (thought necessary to reduce the budget deficit).

If the restoration of the Gold Standard demonstrated the folly of trying to recreate the past, the Great Depression illustrated the folly of excessive reliance on private markets. Today, it is hard to imagine how the authorities, especially in the US, failed to respond to the deteriorating economic climate.

Between 1929 and 1933, US gross national output fell by nearly a third. Unemployment rose to almost 13m, or about a quarter of the labour force. Production did not recover to 1929 levels for almost a decade; one person in every five was still jobless even in 1938.

Yet leading economists, reared in the classical tradition, urged no action by government. As J K Galbraith points out in his *History of Economics*, theory ruled out the possibility of a prolonged depression (Say's Law said that supply created its own demand): "Physicians, even of the highest repute, do not have a treatment for an illness that cannot exist".

Joseph Schumpeter at Harvard and Lionel Robbins at the London School of Economics came forward "to urge specifically that nothing be done". The depression, they maintained, must be allowed to run its course.

Poison had been accumulating in the system and only hardship could extrude it and restore the economy to health. Schumpeter went so far as to argue that a recovery would be sound "only if it does come of itself".

Throughout Herbert Hoover's presidency, until March, 1933, US policy followed the classical design. "Recovery was expected and compulsively predicted", according to Galbraith. All the traditional levers were pulled: by 1931, the New York Federal Reserve Bank had reduced interest rates to a nominal 1.5 per cent, compared with 6 per cent before the 1929 crash.

Continued on page 63

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ECONOMICS

THE WORLD ECONOMY PRE-1914

A world economy starts to emerge

Alec Cairncross on a period of rapid growth in trade

THE WORLD could look back in 1914 on a loog period of steady economic growth that had transformed living standards in many countries, particularly those in Western Europe and North America. In the United Kingdom, which had led the way, real incomes had doubled in the previous half-century and wealth had grown at much the same rate. Other countries, starting later, were advancing faster.

There were, however, wide differences between different contineots and, within each continent, between different countries. In some, the process of change and development had scarcely begun while others were already far advanced in the absorption of the latest methods of production. Perhaps the most striking feature of the period was the emergence of a world economy in which economic development spread from one country to another through the diffusion of ideas and technology, the expansion in trade, large-scale emigration and the export of capital.

It was the revolution in communications that struck Keynes as so extraordinary, looking back across the gulf that separated 1919 from 1914. "The inhabitant of London," he recalled, "could order by telephooe, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world ... He could secure, forthwith, if he wished it, cheap and comfortable means of transit to any country or climate without passport or other formality ... and could then proceed abroad to foreign quarters, without knowledge of their religion, language, or customs, bearing coined wealth upon his person ... Most important of all, he regarded this state of affairs as normal, certain and permanent, except in the direction of further improvement."

The most visible evidence of development was the growth of trade. From about £850m in 1850 world trade had grown to £3.5bn by 1913 and was still increasing in volume at about 3.5 per cent per annum. Trade for most countries had proved an "engine of growth" allowing scope for fuller use of underutilised resources and increased specialisation in profitable directions.

Two countries had plsyed a dominant part in the expansion of trade, the United Kingdom on a truly international scale, Germany in relation to the European continent. The UK had long traded far more with other continents thao Europe and in 1913 still carried on aome three-quarters of her trade outside Europe. In the middle of the 19th ceotury, with only 2 per cent of the world's population, it had supplied about 20 per cent of the world's exports and in 1913 its share of world trade was still nearly 15 per cent. For manufactures, the proportion was more than twice as large – just under one-third compared with 7-8 per cent in 1987. Germany's trade, which in 1850 had been well under half that of the UK, had become equal to it in volume by 1913. But whereas the UK traded extensively with the Dominions and the Third World, more than half Germany's exports went to European countries.

Germany was the hub round which the European economic aystem revolved. For most of her neighbours she was their best customer and largest source of supply. Even in the case of the UK, Germany bought more British exports than any other country except India, and aupplied more imports in return than any country except the United States. German enterprise and German capital played a major role in the development of all the European countries lying to the east.

The UK supported development on a wider scale. In all parts of the world, Britain exercised a powerful influence in three differeot ways: by supplying manufactures, by offering an open market for primary produce and by providing vast amounts of capital. Of these, the last is usually given greatest prominence. By 1913, Britain had become by far the world's largest creditor with overseas assets comparable in value to the whole of her stock of domestic fixed capital other than dwellings, and equivalent to over twice her national income. Translated into 1987 magnitudes that would represent £700bn, which compares with a current portfolio of overseas assets of about £100bn. Forty years later, two world wars had so reduced Britain's wealth that it had barely recovered to the 1913 level.

The flow of capital from the UK reached a peak in 1913 when it absorbed not far short of 10 per cent of the national income. Most of it went to the American continent and Australasia, that is, to the countries where European migrants were settling, and took the form of loans and debentures rather than equity capital. Its principal use was in railway-building and the improvement of transport and communications, in this way extending the sources from which food and materials could be drawn and accelerating the growth in supplies.

Of equal importance was the availability of a market in Europe for those supplies. Then as now agriculture in Europe was highly protected. The British market, however, remained open and had an influence on world economic development altogether disproportionate to its size. For some foodstuffs, it absorbed well over half the quantity entering into international trade and for all primary produce it handled a substantial proportion of total trade. For the countries in course of development with borrowed capital, whether British or not, there was an assured market for the goods whose production was facilitated by external borrowing.

Not that development was confined to those countries to which European labour and capital flowed in unparalleled amounts. Africa and Asia together had borrowed just as much by 1913 as North America, and Latin America almost as much. There was also substantial direct investment in the Third World, amounting perhaps to half the total for private investment. In parallel with investment, trade expanded rapidly. In the three more backward continents, it grew at about 4 per cent per annum over the 30 years before the First World War – at least as fast as, and probably faster than, the growth of world trade as a whole.

Black Africa, now falling behind, had then one of the highest rates of trade expansion – faster than Asia if Japan is left out and faster than total world trade.

The flows of commodities and capital that grew so smoothly and steadily rested on a payments system in which there was general confidence. For a quarter of a century or so all the leading industrial countries had been on the gold standard and although there had been periodic crises, none of them had interrupted the operation of the system.

Prices had been moving up slowly for many years but not at a rate to disturb confidence in the medium of exchange or in the fixed parities of the main currencies. The competitive position of the leading countries did not change violently: on the contrary, wages per unit of output remained remarkably stable in each of them. Money wages rose gradually, responding flexibly to competitive pressure and showing little secular connection with changes in the cost of living.

The gold standard was fundamentally a sterling standard. Only three countries – the Netherlands, the United Kingdom and the United States – had a free market in gold. Many others operated a gold exchange standard, using balances held in sterling to supplement their gold reserves and hold the rate of exchange to a fixed parity. At least half the total value of world trade was paid for in sterling. This made the Bank of England, although it had only a minute free reserve of gold, the centre of the international payments system. By changing Bank Rate, it could regulate the flow of short-term capital to and from other countries for the finance of their trade. At the same time, London was much the largest capital market in the world.

The system was also a multilateral one and free on the whole from discrimination. Countries had no need to settle accounts bilaterally but could set a surplus in one direction against a deficit in another. This was highly important to the UK which was in chronic deficit vis-a-vis North America but in surplus with the rest of the Commonwealth, especially the colonies which marketed much of their output of raw materials in the US. It was the breakdown of this triangular arrangement after 1945 that made the dollar problem so acute for the UK.

In 1914, the system had been working well for many years. But there were doubts whether it would function satisfactorily in the future. The boom which had been in progress for many years, with a break in 1908, had passed its peak and a depression of unknown depth lay ahead. The UK was encountering a whole series of difficulties at home and abroad and losing the power necessary to sustain its central role. The terms of trade were moving strongly against the industrial countries and giving rise to concern for the future supply of primary produce entering into trade. Tensions were building up between the leading industrial countries.

Even if war had been avoided, the chances are that the world economy would have entered a period of slowdown and readjustment. But there is no reason to think that the readjustment under peace-time conditions would have been beyond the capacity of the system and required a revolutionary break from existing arrangements.

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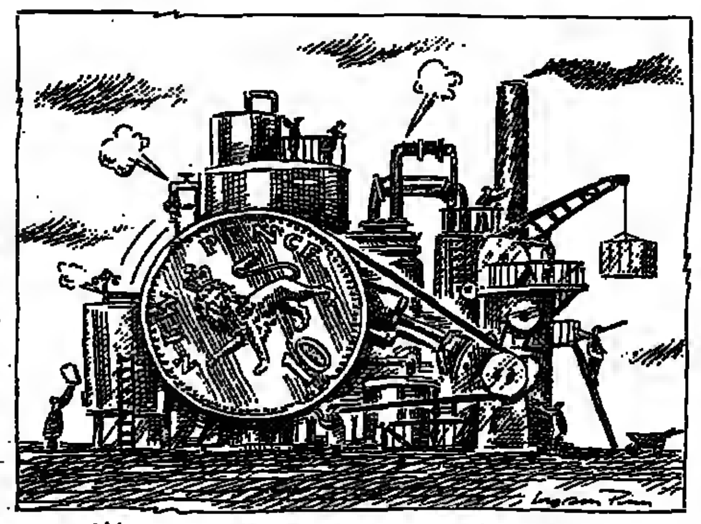

The way in which the world economy works has become better understood in recent decades. Concerted action between nations to overcome problems remains, however, an elusive goal.

The landing stage, L[illegible]ool, in the [illegible] was playing a [illegible] expansion of world trade.

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THE WORLD ECONOMY 1919-1939

Dislocation, disintegration

Charles P Kindleberger analyses the acute economic crises of the inter war years

TO ALL BUT Marxists, war is an exogenous shock to an economic system. It is, moreover, a hot-house, accelerating economic development that is under way, hastening decline when that has begun.

War redirects resources in various directions: out of private consomption and investment into public consumption of shot and shell, out of broken export lines into import-competing production on a scale comparable to prohibitive tariffs. It may pile up debt against which there are few productive assets to provide subsequent service, and consume previously existing foreign assets that earned income.

World War I, the longest and the most destructive in more than a century, was no exception to these generalisations. In Europe, casualties of dead and wounded were enormous, and concentrated in the most productive male youth.

The 21 years from Armistice Day in November 1918 to World War II can be divided into a postwar crisis (1920-21); recovery, to about 1925; an interlude of boom, albeit marked by depressed sectors such as agriculture, and depressed economica such as Great Britain; the 1929 crash and strenoous deflation to 1932 or 1933; followed by a long, slow recovery to 1937; and the re-armament boom in 1938-39.

The immediate postwar period was one of illusions. After demobilisation came the task of creating a world fit for heroes. Exhausted by overtime, labour demanded and obtained the eight-hour day in victors and vanquished alike.

The collapse of the German economy appeared to hold opportunities for profitable expansion in steel, cotton textiles, shipping, coal and chemicals. France and Belgium proceeded with ambitious reconstruction plans, confident that Germany would pay for them.

The Allies set German reparations in April, 1921 at $132bn. The US and the European allies acrimoniously negotiated a series of war-debt settlements. Some of these illusions evaporated in the period of recovery; others survived until the depression which they helped deepen.

The collapse of the stock-market bubbles in 1920 and 1921 was followed by half a decade of efforts to get wartime dislocations behind. Monetary conferences at Brussels and Genoa led by Montagu Norman of the Bank of England tried to rebuild the gold-exchange standard through agreements.

Britain returned to the gold standard in 1925 at the price of gold that had been maintained since 1717 (with wartime interruptions). France went through a series of exchange crises and finally established the Poincare franc at one-fifth its prewar level, uoder-valued relative to the over-valued pound.

The German mark exploded in hyper-inflation and was replaced by the Rentenmark and then the Reichsmark. The stabilisation process included a Dawes loan, the unexpected success of the New York tranche of which started a flood of foreign bond issues in New York, especially to Germany and the world periphery.

A brilliant Economic and Financial Department of the League of Nations embarked on a series of initiatives in trade and finance. A World Economic Conference in 1927 produced agreement for a tariff troce, but lacking an enforcer evoked little adherence in practice.

Stability from 1924 to 1929 hid a series of structural weaknesses; an accumulation of German debt to provide the foreign exchange to pay reparations, a piling up of French balances in London; and especially the recovery in Europe of grain production without a comparable shrinkage of expanded acreage and yields overseas from the war.

Central-bank co-operation went forward, including the Long Island agreement of July 1927 for lowering interest rates in New York, rather than raising them in London, but tension remained between Norman at the Bank of England and Emile Moreau of the Bank of France, rivals for central-bank leadership in Europe.

In the spring of 1928 there began a boom in Wall Street. From seedlings, sprouted in the hothonse of war, in sectors such as automobiles, tyres, petroleum products, radio, chemicals and public utilities, especially electricity, new industries flowered and gave rise to excitement among investors and speculators.

The boom was financed by brokers' loans, attracted not only from New York banks but from American iodustry and abroad. Interest rates tightened. The flow of loans to Germany and the "Regions of Recent Settlement" was cut off as bond buyers turned to the stock market. Such a country as Australia that normally borrowed through overdrafts and paid them off with loog-term loans oo occasion, found their paymeot deficits could not be financed and drew down foreign-exchange reserves.

German borrowers turned to short-term bank credits. Rising interest rates in the Uoited States slowed down mortgage lending and borrowing for the purchase of automobiles to level off industrial production after June 1929.

As the stock market went higher in the summer of 1929, the Federal Reserve raised interest rates still more. The stock market peak was reached in September; in the last week of October tbe market collapsed. The trigger may have

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A small provincial shop in Germany in 1923: the cash register was too small to hold all the money.

Inter-war years

Continued from page 35

been the September Hatry crisis in London that drew British funds back to London from New York and tightened interest rates still more.

Black Thursday, on October 24, and Black Tuesday, on October 29, wiped out billions of paper profits. Stock markets all over the world fell in sympathy.

The liquidity seize-up caused by threatened brokers' loans in a falling stock market spread to commodities as goods exported to New York on consignment met commodity brokers unable to obtain financing. The Federal Reserve responded to the crash by open-market operations to ease money markets, and President Hoover called industrial leaders to Washington to urge continued investment, output and sustained employment.

Interest rates fell in the first half of 1930, but share and commodity pricea failed to recover. A "flight to quality" was observable in foreign bonds in New York in March, 1930 and in domestic bonds in September of that year.

Large Nazi gains in the election of September, 1930 increased the lack of confidence. The first banking crisis in the US took place in November and December, 1930, as late-entering banks, forced to make their way by taking on high-risk borrowers and struggling for cash from the 1929 crash, finally joined the agricultural banks which had been failing in the United States since 1925.

The scene shifted from the US to Europe. While German banks with large short-term liabilities to foreigners had been under pressure, the break came in Austria with the failure of the Creditanstalt in May, 1931.

Rescue operations were inadequate and the crisis spread to Germany. An attempt to halt the run on German banks from outside the country – the Hoover moratorium on war debts and reparations of June 19, 1931 – gave rise to technical questions raised by France. In the three weeks in which these were being settled, the run accelerated, forcing Germany to block further repayment of foreign loans.

The run spread to Britain where the Macmillan and May reports revealed the height of foreign liabilities and played up the danger of budget deficits. Two sets of Franco-American loans were too little, if perhaps not too late, and the second gave rise to conditions that brought down the Labor government and its replacement by a National one.

When the pound left gold on September 21, 1931, it did so in a free fall from $4.86 to the dollar to $3.25. This pushed dollar and gold prices down, rather than sterling prices up.

Further deflationary pressure in the US came from gold-bloc country conversions of dollars into gold, to which the Federal Reserve responded in a classic mistake by raising interest rates.

Japan, which had belatedly adopted the gold standard in 1929, abandoned it in December 1931 and went its separate way with a beggar-thy-neighbor policy of an under-valued currency. Its militarists started adventures in Manchuria, pushed hard for military spending, and assassinated a moderate finance minister in 1936.

The rest of the 1930s have been characterised by the anti-Nazi German economist, Wilhelm Roepke, as a period of world economic disintegration. The Hawley-Smoot tariff of June 1930, signed by President Hoover over the protests of 1,028 economists and more than 45 countries, made for a descending spiral of international trade.

Black Thursday, on October 24 and Black Tuesday on October 29 wiped out billions of paper profits

Latin American countries defaulted on the bonds they had sold in New York from 1924 to 1928. The German Standstill Agreement with its creditors developed gradually into an elaborate system of foreign-exchange control, with bilateral clearing, especially *vis-a-vis* Southeast Europe and Latin America, and special exchange rates for particular types of goods and services, both those sold and those bought.

An attempt to settle international monetary and trade problems at a World Economic Conference in London in June and July 1933 failed, as President Roosevelt decided that stabilising the dollar would limit the rise of prices that depreciation since April had produced.

Out of the wreckage came a more formal sterling area on the one hand, and gold bloc on the other. The sterling area had been buttressed by the Ottawa Agreement of August, 1932, instituting tariff preferences among Commonwealth countries. Autarchy became a watchword, and received the blessing of Keynes in a Yale Review article in 1933.

The Soviet Union turned first Socialist and then Communist in 1917, defended itself successfully in the early 1920s against Poland in the west and various aggressors in Siberia in the east.

Some liberals in the West viewed its new economic system of planning and government direction enthusiastically. Early problems were addressed through a New Economic Policy in 1922, later abandoned with Stalin's victory over rivals.

Poor crops in 1930 and 1931 coincided with low world prices for wheat, but the country nonetheless exported out of its limited supply to obtain foreign exchange, driving wheat prices still lower and starving some estimated millions of Russian city-dwellers.

Throughout the interwar period, the Soviet Union used exports in the interest of ultimate autarchy, but continued to require from abroad sophisticated equipment and especially commodities such as wool and rubber. In 1939, Stalin's cynical deal with Hitler unleashed the German attack on Poland to start World War II.

The world economy came back slowly from the depths of 1932 and 1933. Low interest rates in Britain and favourable terms of trade following the depreciation of sterling led to a building boom that spilled over into Scandinavia, through lumber imports.

President Roosevelt became bored with the changing dollar and stabiliaed it in February 1934. In the same year, the US adopted a more international policy through the passage of the Reciprocal Trade Agreements Act providing for reduced tariffs in limited amounts. France and the gold bloc pursued a deflationary policy to correct balance-of-payments deficits.

In 1936, the Popular Front came to power in France, raised wages and worsened the position until the French franc was devalued in September 1935 under the cover of a Tripartite Monetary Agreement with Britain and the United States inaugurating limited but symbolically significant international monetary cooperation.

Progress in trade was attempted on a wider basis with the commissioning of a report by Paul van Zeeland, former Belgian prime minister, but its conclusions proved abortive as Europe turned belatedly to armaments, to counter the rising menace of Nazi Germany.

Hitler occupied the Rhineland in 1936, took over Austria in the Anschluss in 1937, Czechoslovakia after meeting Chamberlain at Munich in September 1938 and took over Czechoslovakia in March, 1939. With the attack on Poland in September of that year, the fat was in the fire.

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TRADE POLICY

The challenge to liberalism grows

The lessons of history are in danger of being forgotten, says **Martin Wolf**

WHEN THE Financial Times was founded, liberalism in international economic relations, though strong, was growing weaker. As the centenary is celebrated, the trend looks similar.

The late-Victorian decline was followed by the disastrous collapse of the inter-war years, itself succeeded by a successful, but now decaying, post-war reconstruction. If the pattern is to be repeated, can one hope for the same happy ending?

In the case of international trade, Mid-Victorian liberalism had two specific sources: the commitment of the UK (alone among the major countries) to unilateral free trade, which can be dated to the repeal of the Corn Laws in 1846; and the European commercial treaty system, which had its origin in the "Cobden-Chevalier Treaty" of 1860, negotiated between France and the UK.

The treaty system that was then established in Europe is not of purely historical interest. Its fundamental norms were non-discrimination (the unconditional most favoured nation clause), reciprocal bargaining and the binding of negotiated levels of protection, all of which were to reappear in the General Agreement on Tariffs and Trade (Gatt) after the Second World War.

The active participants in the liberal system were the European countries, but at that time these countries dominated the world. In 1913, 33 per cent of world trade was within Europe and another 52.6 per cent was between a European partner and a partner in some other region. A paltry 14.6 per cent of international trade was among non-European countries.

The only important outsider was the US, which insisted on tariff autonomy. Growing US competition from the 1870s, most importantly the export of grain from the prairies, was a source of protectionist legislation in Europe, starting with Germany in 1879 and France in 1892. The conflicts over trade in foodstuffs that catch the headlines today date back to the time when the FT first appeared.

The era before the First World War witnessed another development with significant modern echoes: the concern of the UK with its relative decline. In 1880 the UK had accounted for some 30 per cent of world industrial production, but by 1913 her share was down to 14 per cent. By contrast, the US had become the world's most important industrial power by the mid-1880s, and accounted for more than a third of world industrial output in 1913. The determination of the US to remain outside the international trading system thus proved a damaging anomaly.

Despite some moves towards protection, policy remained liberal on balance (except in the US), and the international economy became progressively more integrated. Between 1870 and 1913 exports of the more advanced countries grew on average at just over 4 per cent a year, while GDP grew at 2.5 per cent. World trade more than tripled between the early 1880s and 1913.

The dominant pattern of world trade was not, as is often believed, of exports of manufactures from industrial countries in return for primary commodities from the less advanced. In 1913 some 60 per cent of the exports of the more advanced countries went to one another, including half their exports of manufactures.

The complex network of international transactions collapsed in the inter-war period. In the 1920s problems were created by the monetary chaos in Germany and the refusal of France to act on the old basis of non-discrimination. More serious, however, was the continued insistence of the US on a strictly unilateral and protectionist policy, which reached its apogee in the Smoot-Hawley tariff of 1930.

Retaliation by 30 countries followed enactment of the Smoot-Hawley tariff, including the abandonment of free trade by the UK in 1932. The disruption caused by the growth of protection was one reason why the stuck market crash of October 1929 led to a uniquely severe depression. The Great Depression not only reduced world trade through direct effects on income but led to further protection, the protectionist spiral continuing downward into the pervasive restrictions of the Second World War.

What were the effects on trade? By 1929 the volume of world trade had recovered from the First World War. (Even in 1930 the volume of world trade was some 13 per cent above the level of 1913.) Between 1929 and 1932, however, the volume of world trade fell by a quarter (the value falling much more, by over two thirds).

As a result of the Second World War and the Great Depression, the major economies were more inward-looking in the 1950s than in 1913. Between 1913 and 1950 the GDP of the more advanced countries grew at an annual average rate of just under 2 per cent, while their exports grew hardly at all.

After the war, trade was liberalised under the auspices of the OEEC, Gatt, the EC and Efta. Currency convertibility and international monetary stability were restored through the OEEC and the IMF. Huge resources were transferred from the US under the Marshall Plan.

The international economy was transformed. Between 1950 and 1973 the volume of exports from the more advanced countries grew at close to 10 per cent a year, while their GDP rose at over 5 per cent a year. By the mid-1970s the ratio of trade to national income of the major countries was (with the exception of Japan) equal to or even higher than in 1913.

The 1948-1973 period of rapid growth of international trade and the world economy had three particular features:

□ By 1950 trade within Europe as a whole had fallen to only 22 per cent of world trade. Thirty-five per cent of world trade was then entirely outside Europe. Despite the rapid growth of world trade in the post-war era, that of Europe grew still faster. By 1970, two years after the elimination of tariffs within the EC, European countries were involved in 70 per cent of world trade, no less than 40 per cent of it within the region.

□ The growth of world trade was led by trade in manufactures among industrial countries. In 1955 63 per cent of the exports of industrial countries went to one another, as did 56 per cent of their exports of manufactures. By 1973 the corresponding proportions were 75 and 73 per cent.

□ Exports of manufactures from the developing countries became increasingly important, especially for them. In 1955 these exports were 7 per cent of world exports of manufactures and 13 per cent of their total exports. By 1973 these shares had risen to 8 and 25 per cent respectively, despite the growing importance of oil (and they have gone on rising since, to 12 and 34 per cent in 1985).

The oil shock of 1973 ended this golden era for the growth of trade and output. Between 1948 and 1973 the growth of world trade was both extraordinarily high and higher than that of world industry. After 1973 world industry and world trade have grown at an equal and much lower rate.

One reason for the slow growth of world trade has been the decline in world trade in oil. But the reduction in growth has been more general. For example, world exports of manufactures grew at 10.6 per cent a year in volume between 1965 and 1973, but at exactly half that rate between 1973 and 1985. Meanwhile, the pressures of competition on the established industrial countries from Japan and the developing countries have continued unabated. Indeed, exports of manufactures from developing countries grew faster between 1973 and 1985 than before, at an annual rate of 12.3 per cent.

The competitive pressures, slow economic growth and rising unemployment, notably in Western Europe, since 1973 have inevitably increased protectionism. According to World Bank estimates, about 16 per cent of industrial country imports in 1986 were covered by restrictive non-tariff barriers, up from 13 per cent in 1981. In clothing and iron and steel the proportions were over 60 per cent.

There are estimates that by the mid-1980s more than 10 per cent of world trade in manufactures was covered by discriminatory measures, such as the multifibre arrangement and voluntary export restraints, the proportion of world trade indirectly distorted by such measures being much greater.

What is not clear is whether the slowdown in trade simply reflects slower growth, which has then caused increased protectionism, or whether protection has exerted an independent effect on trade and growth.

Those who consider protection to have been of minor importance point out that, even in manufactures, where the "new protectionism" has been concentrated, the growth in exports after 1973, at 5.3 per cent a year, has been higher than that of world output, at 3.5 per cent. But the inhibiting effects on investment of protectionism would be expected to lower the growth of income itself. Furthermore, discriminatory trade measures would have quite modest effects on trade, because they divert commerce rather than stop it, but the resulting economic inefficiency would reduce growth.

The Tokyo Round of multilateral trade negotiations under Gatt, the seventh such round, took place in the shadow of these developments, the initial declaration having been agreed in the inauspicious year of 1973. It is hardly surprising that it took six years to complete; it is also unsurprising that the Round's contribution to liberalisation was modest.

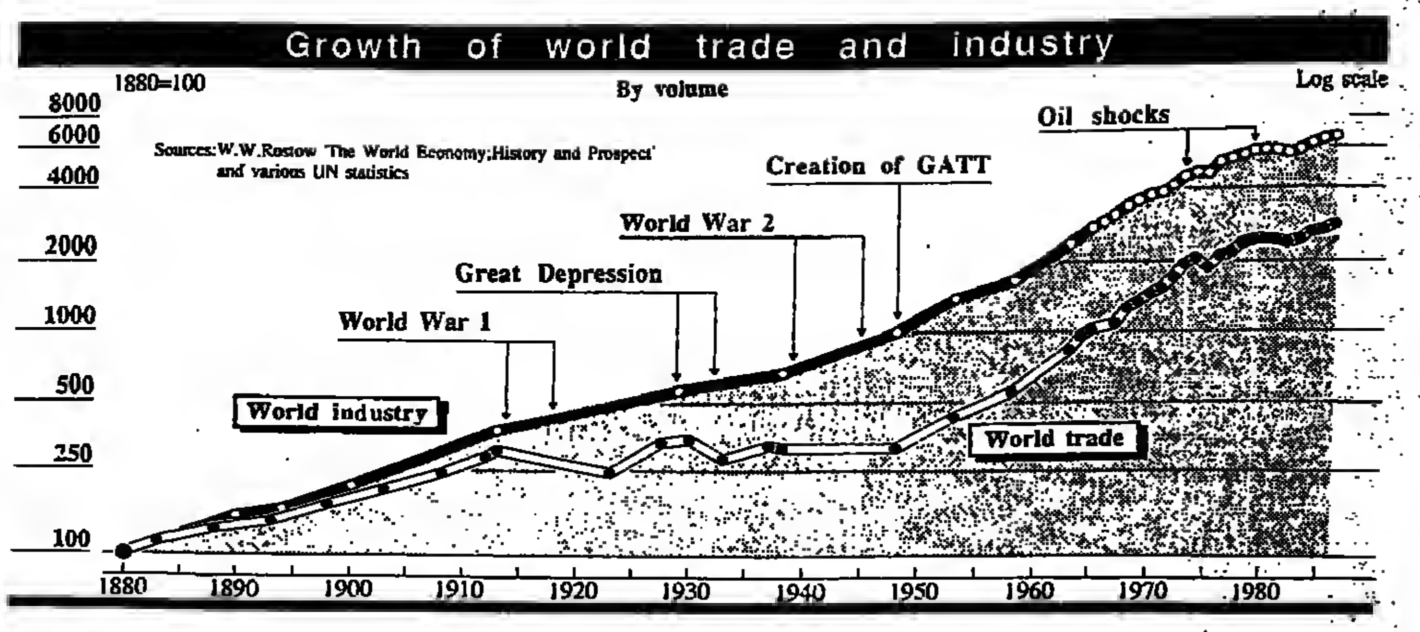
The 1980s have raised even greater challenges for trade policy. The recession of 1979-1982 was the most severe since the Great Depression, with world trade stagnating for four years. The combination of high unemployment in Europe, large trade deficits in the US and vigorous competition from Japan and the East Asian newly industrialising countries has made it increasingly difficult to preserve liberalism.

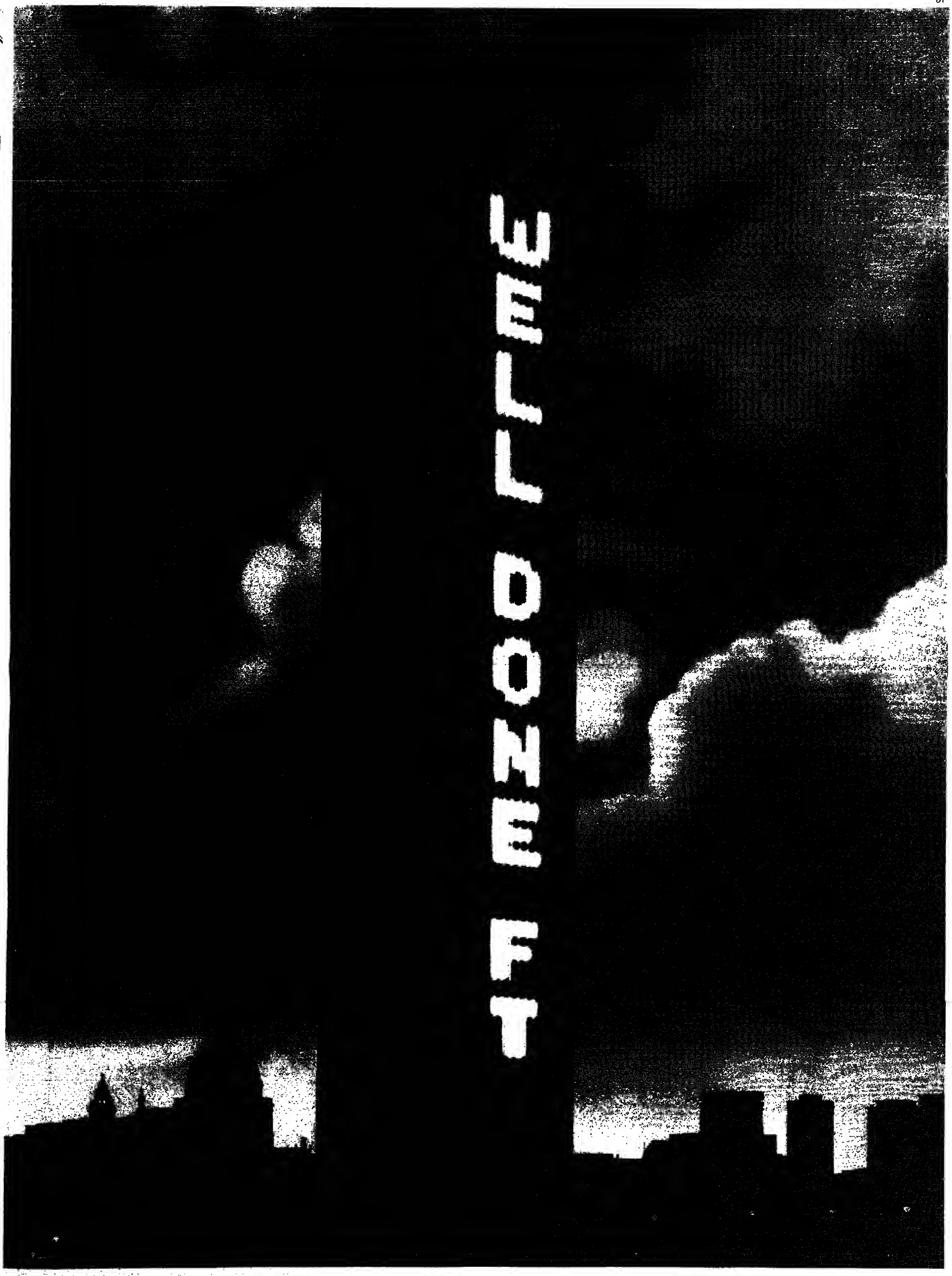
In these unhappy circumstances the declaration inaugurating the Uruguay Round was agreed in 1986. While technical progress has been quite good, the aim of extending liberalisation to agriculture and services, however worthy, looks like an effort to extend a house whose fonndations are collapsing.

The Depression of 1929-1932 followed a period of monetary chaos and difficnlties with deadweight debt, most of which was the legacy of the First World War. In commercial policy the 1920s saw protectionism and a lack of predictability in commercial policy. The Depression was preceded by a financial collapse and US protectionist legislation.

This year, too, has been preceded by an extended period of monetary chaos and difficulties with debt, in this case debt contracted by developing countries after the two oil shocks. The growth of world trade has been sluggish since 1973, and commercial policy has been growing increasingly protectionist and disorderly. In 1987, as in 1929, there was a major financial shock. In 1988, as in 1930, Congress is debating a major piece of protectionist legislation.

There is no reason why the experience of the interwar years has to be repeated, but that can no longer be ruled out. Nor is it the case that people failed to learn from history. They did learn; but then they forgot. To have lost a world of liberalism and economic expansion once was tragically unfortunate; to lose it twice would be far more culpable than mere carelessness.




WELL DONE FT

THE GOLD STANDARD DEBATE

A policy that crippled

The mechanics of going back to the gold standward were not well understood. Robert Skidelsky on a move that failed and the consequences of that failure

A HUNDRED YEARS ago all the main countries of the world adhered to a fixed-exchange rate system known as the gold atandard.

Their domestic currencies were freely convertible into specified amounts of gold; they maintained fixed proportions between the quantity of money in circulation and the gold reserves of their central banks. An ounce of gold was worth £3.83 and $18.60, giving a sterling-dollar exchange rate of 4.86.

The appeal of the gold standard was that it provided not just exchange rate stability, which encouraged international trade, but promised long-run stability in pricea, since the obligation to maintain convertibility acted as a check on the "over-issue" of notes by governments.

The gold standard was suspended *de facto* during the first world war and *de jure* immediately after it. It was restored between 1925 and 1931. Between 1945 and 1971 a diluted form of gold exchange standard (the Bretton Woods System) was in place. For the past 17 years currencies have floated.

Maintaining a fixed exchange rate system was evidently much easier in the 19th century than it has been in the 20th. The debate surrounding Britain's return to gold in 1925 helps explain why.

In retrospect, the First World War proved fatal to the old gold standard. True enough, criticism of it had stsrted before the war. The main point made by monetary reformers like Irving Fisher and Knut Wicksell was that the quantity of gold, and therefore money, fluctuated with the cycles of gold mining rather than with business needs, so that the gold standard system failed to maintain price atability.

The transformation from an automatic to a managed system was already under way before the war. The war itself, though, was a watershed. It was fought by all belligerents on a wildly inflationary basis. By 1919 the currencies of victors and losers alike were well below their par gold values.

Moreover, since the inflation rate had varied from country to country, the relative values of their currencies were no longer

Stanley Baldwin: Churchill was his Chancellor

the same. Currencies were left free to float in 1929. Nevertheless, the official view everywhere favoured resumption of specie payments as soon as posaible at the pre-war par values. In Britain tbis doctrine was enshrined by the Cunliffe Report of 1918, and formed the basis of policy.

However, the mechanics and costs of returning to gold were not well understood. The crux of the matter, as far as Britain was concerned, was that its policy was tied to that of the United Statea. US wholesale prices had doubled between 1914 and 1920 whereas British wholesale prices had trebled. Enough new gold had been mined to support a higher price level without reducing the gold value of the two currencies, but most of this was in the US.

In principle, convertibility at pre-war values could have been restored without undue deflation had the monetary policies of the US and Britain been sensibly coordinated but no machinery for cooperation existed.

Landing of inflation was a necessary condition but the required British deflation would have been much less had America attempted, for example, to stabilise its domestic prices at their 1920 level. Instead, the Federal Reserve Board did nothing to offset, and by its interest rate policy actively promoted, the heavy fall in prices which accompanied the collapse of the brief postwar boom in early 1920.

Given the British commitment to the pre-war sterling-dollar exchange rate, Britain had to follow the deflationary course set in America; and more savagely, since British prices had risen higher.

Policymakers were not apparently conscious of having any choice in the matter. Underlying the deflationary stance in both countries was the conviction that justice to the bondholder required that war loans be paid back in currency which as nearly as possible equalled their pre-war purchasing power.

Thus, the process of back to gold involved, for Britain, two years of unprecedentedly high real interest rates, the effect of which was to cripple British industry and leave as its legacy an unemployment rate of 10 per cent which lasted until 1940.

By the time the Great Deflation had ended in 1923 British wholesale prices had fallen from their 1920 peak of 324 (1913=100) to 160 and weekly wage rates from 252 to 180 in the aame period. Unemployment had gone up from 3 per cent in 1920 to 22 per cent in the second quarter of 1921 before falling back to 11 per cent. The sterling-dollar rate, having sunk to 3.5 at the height of the boom, had improved to 4.50 by early 1923, but the wholesale British/price index was still higher than America's.

It was in the light of these events that Keynes turned decisively against the policy of going back to gold. By the end of 1922 he was arguing that relief of unemployment required a rise in the British price level of some 15 to 20 per cent, and "that the improvement of sterling towards par is hampering that."

In July 1923 he called the rise in Bank Rate from 3 per cent to 4 per cent (in response to a sudden fall in aterling) "one of the most misguided movements of that indicator which has ever occurred."

In his *Tract for Monetary Reform*, published in December 1923, he argued that, faced with the choice, price stability must take priority over exchange stability. Given America's preponderant pull over gold, to fix the sterling-dollar exchange would be "to surrender the regulation of our price level and the handling of the credit cycle to the hands of the Federal Reserve Board of the United States."

Having witnessed the social and economic costs of forcing down wages and prices, Keynes was now saying that a country's exchange rate should adjuat to its wages system, rather than the other way round. This argument waa eventually to prove lethal to the gold standard.

Winston Churchill became Baldwin's Chancellor of the Exchequer on November 6 1924. The Gold and Silver Act of 1920, preventing the export of gold, was due to expire at the end of 1925 and a decision had to be made whether or not to renew it. If the decision went against renewal the best time would be in the spring of 1925 when demands on the exchange were lightest.

Most informed opinion now favoured an immediate return to gold. Keynes and Reginald McKenna, chairman of the Midland Bank, were against. A few bankers, plus the Federation of British Industry, favoured postponement.

No one seems to have considered the possibility of devaloation: fixing the exchange at the rate which had prevailed *de facto* for most of 1923-4 - between 4.40 and 4.50.

The Chamberlain-Bradbury Committee, set up in 1924 to consider the question of the return to gold, reported in February 1925 that the moment was opportune. A capital-induced rise in the exchange had carried the pound to 4.68, just short of parity.

Very few men were involved in the actual decisionmaking process - Churchill himself, Sir Otto Niemeyer, Controller of Finance at the Treasury, Lord Bradbury, an ex-Permanent Secretary, Montagu Norman, Governor of the Bank of England, and a handful of bankers. Industrialists were not consulted. Norman believing that "the merchant, manufacturer, workman,etc should be considered, but not consulted any more than about the design of a battleship."

Winston Churchill: genuine feelings

The main issue concerned the extent of the divergence between British and US prices. Niemeyer's main argument was that British and American prices were "within 4½ per cent of each other, if not nearer", so that the "extra sacrifice" needed to achieve par would be negligible.

Prof. Donald Moggridge has drawn attention to the completely innumerate nature of the calculations. According to R.S.Sayers, Norman's method of working out purchasing power parities was "to add together figures suggested by, say, six authorities and divide them by six and take the resulting average as the best working assumption."

Churchill understood little about the intricacies of finance. Nevertheless, he had been well briefed in the Keynes-McKenna line. Some of the objections he raised to the policy of returning to gold were no doubt designed to elicit cogent arguments for his own public use when announcing the return.

But it is hard not to believe that his memorandum to Niemeyer of February 22 1925 reflected his own genuine feelings: " The Treasury have never, it seems to me, faced the profound significance of what Mr Keynes calls the 'paradox of unemployment amidst dearth'. The Governor shows himself perfectly happy at the spectacle of Britain possessing the finest credit in the world simultaneously with a million and a quarter unemployed." It is impossible not to regard...the object of full employment as at least equal, and probably superior, to the other valuables objectives you mention...The community lacks goods, and a million and a quarter people lack work.

"It is certainly one of the highest functions of national finance to bridge the gulf between the two. This is the only country in the world where such conditions exist. The Treasury and Bank of England policy has been the only policy consistently pursued. It is a terrible responsibility for those who have shaped it, unless they can be aure that there is no connection between the unique British phenomenon of chronic unemployment and the long, resolute consistency of a particular financial policy. I would rather see Finance less proud and Industry more content."

The Treasury's consistent response to this line of argument was to stress that the return to gold was an employment policy. British unemployment could only be mopped up by a worldwide trade recovery.

For this, stabilisation of the exchanges was a necessary precondition. Repayment of foreign creditors in full value pounds was also deemed necessary if London's position as the world's premier capital and money market was to be restored.

The British experience under the gold standard in the intervening years killed it completely as a model for emulation. In the 1930s it became accepted that each country must manage its exchange rate in the interests of domestic employment.

The Bretton Woods System was a heroic effort to combine the advantages of fixed exchange rates with national autonomy in the conduct of economic policy.

Once again the British experience was negative, commitment to a fixed value of sterling being associated with the stop-go policies which, allegedly, hampered Britain's economic growth.

Yet British reactions should not be taken as definitive, or paradigmatic. In 1925 the pound was over-valued in relation to the dollar, and the German, French and Belgian currencies. It proved impossible to correct this over-valuation, not only because international cooperation was lacking, but more importantly because the British 'wage-price' structure had become peculiarly rigid. The same rigidity coloured Britain's experience of the dollar standard between 1945 and 1971.

So many extraordinary, "impossible", things have been happening in economics in the last ten years that a return to some form of gold standard, while unlikely, is no longer beyond the bounds of possibility.

PIONEERING ECONOMISTS: MAYNARD KEYNES

Saviour of capitalism

Robert Skidlesky on a central figure of the twentieth century

JOHN MAYNARD KEYNES is one of the central figures of the 20th century. He revolutionised economics; revitalised political liberalism; and helped save capitalism.

He is a name to conjure with in the history of philosophy and of the arts. His greatness lies in the sum of his achievements: we diminish him if we see him only as a "great economist."

He was above all a political economist, becauae he consciously fashioned his economic theory to serve the purposes of statesmanship as he conceived them.

His disciplined achievement is the more remarkable because he had a naturally fanciful mind which loved to play with ideas and with ideal schemes of living. But he knew that the 1930s was no time for play.

The Keynesian Revolution in economics can be studied in the textbooks. It is difficult now to rescue Keynes's "vision" not just from his own theoretical constructions but from the mass of subsequent analytical compromises, aimplifications, encrustations. His main proposition was that production could be limited by effective demand.

By saying this he switched the attention of economics from the problem of how to secure the most efficient allocation of available resources to the problem of how to secure the full use of potential resources. Although particular arguments he used have not survived, the view of how an economy works has never been the same since.

The idea that there could be an excess of productive capacity was not in itself new. But to pre-Keynesian economists such excesses reflected a maladjustment in the structure of production and were therefore temporary, in the sense that they generated their own cure.

A typical case would be when the relative demand for labour had got out of line with the relative demand for goods. Surplusea of labour in one sector could temporarily co-exist with shortages in another; but, given reasonable flexibility, the price system would bring about the necessary adjustment.

In addition, economists recognised that economy-wide collapses could occur, connected with the business cycle. But the notion of a cycle itself suggested the existence of a corrective mechanism.

For example, a ahortage of gold, causing deflation of money and depression in business, corrected itself by stimulating the expansion of gold mining. Thus although the existence and indeed frequency of unemployment were recognised, economists could still say that full employment was the "norm" to which the system tended.

The possibility of a persisting general glut was excluded by Say's law. The theory of relative price adjustments was implicitly a theory of full employment as well.

Keynes denied that the price system performed, or could perform, this adjustment function when an economy-wide shock was too severe. In such an event output adjustment took the place of price adjustment. The whole system would run down to the point at which reduced output was balanced by a higher propensity to consume out of shrunken incomes. This was the situation of "under-employment equilibrium."

Stuck in this position, the economy needed an external jolt or injection of demand to get it "muving" again. Rather than waiting for something to turn up, governments should provide this stimulus themselves. More generally, they should so manage their budgetary, monetary and other policies to prevent any large-scale collapses of aggregate demand from developing.

Keynes's must important move was to identify econnmy-wide shocks with fluctuations in business cnnfidence. He made the volatility of investment a matter of central theoretical interest.

In a sense, all he did was to incorporate into economic theory his own observations of business psychology. "The state of confidence," he wrote in *The General Theory of Employment, Interest, and Money*, "is a matter to which practical men always pay the closest and most anxious attention. But economists have not analysed it carefully..."

Keynes painted a picture of investment behaviour not firmly grounded in mathematical expectation, but flimsily rooted in "animal spirits." Such behaviour was nnt "irrational": it reflected states of uncertainty and anxiety about the future course of events.

Keynes wrote: "The fact that our knowledge of the future is fluctuating, vague and uncertain, renders wealth a peculiarly unsuitable subject for the methods of the classical economic theory." Students of Keynes are only now starting to remember that he was the author of a major treatise on probability.

One reason classical theory was able to abstract from the problem of uncertainty was that in the 19th century something was always "turning up" to revive the "animal spirits" of

Maynard Keynes: a naturally fanciful mind

entrepreneurs. Also, general confidence in the capitalist system was stronger, and the social impediments to its successful working fewer.

By the 20th century capitalism was looking like an endangered apecies, checked and challenged at home and abroad. Keynes developed a theory for a system which needed crutches. As he put it in 1924: "If private enterprise is not unchecked, we cannot leave it unaided."

This line of thought places Keynes firmly in the history of politics as well as of economics. As the late Fred Hirsch wrote: he "promised full employment and John Stuart Mill too." Keynes gave liberalism a programme on which to fight back against Communism and Fascism.

His ideas could not save the actual Liberal Party from decline. But they ensured that the freedoms associated with historic liberalism would remain central values for the parties which disputed the succession.

Keynes offered an alternative to the polarised political choices on offer at the time. He did not believe it was possible to return to *laissez-faire*: in that respect he was an authentic spokesman of embattled liberalism. On the other hand, he set out to stop the stampede towards collectivism.

Keynes's political compromise between laissez-faire and collectivism was to superimpose a managerial programme which he called socialistic on to the theory and practice of classical liberalism. It was a solution to which his economic theory directly pointed. Through its existing control of the budget and money supply, the state was required so to manage aggregate demand as to maintain approximate full employment.

No extra controls were called for. There was no need for public ownership; no need to "plan the economy"; no need to "choose" between capital and labour; no need for large-scale redistribution of wealth and income; no need for dictatorship.

Fiscal and monetary leverage by the state could be reconciled with economic free-will by individuals and groups. In short, Keynes worked out a logic of intervention to cure mass unemployment which enabled the private economy to function much as before; and without disturbing property rights or political freedoms. This was the new Liberalism's Big Idea.

That he fashioned his economic theory with these larger purposes in mind is indisputable. "The authoritarian state systems of today," he wrote in The General Theory, "seek to aolve the problem of unemployment at the expense of efficiency and freedom... But it may be possible by a right analysis of the problem to cure the disease while preserving efficiency and freedom."

Keynes's economic contribution played a large part in securing the survival of the social system under which we live today. The Keynesian revolution helped ensure that after the Second World War there would be no repetition of the economic and political catastrophes of the inter-war years.

All the major Western governments made full-employment commitments to their electorates. They all became conscious stabilisers. Economic stability in turn promoted political stability. No doubt there were other factors making for the long post-war boom. But the confidence businessmen had that governments would not allow another slide into depression was a background factor of incalculable importance.

Today it is fashionable to say that Keynes made too many concessions to collectivism; that he underestimated the resilience of the market system and over-estimated the competence and probity of governments. In historical terms, capitalism's survival and recovery is an event of fundamental importance. No one expected it in the first half of the century. The socialised economy seemed the model of the future.

Schumpeter devoted a massive tome to showing how capitalism had become unviable. There was the Marxist three-stage model which progressed inexorably from Feudalism, through Capitalism, to Socialism. All Third World countries adopted socialist development strategies.

Keynes provided ideas essential for the defence of capitalism when it was under its fiercest attack. His ideas and the policies associated with them helped it survive and recover confidence.

Today even socialist countries are giving up their systems of centralised planning, trying to create markets where none existed before, making the first tentative steps back towards private ownership of the productive instruments. And since socialist planning can work only in societies which are to a significant degree unfree, this movement away from state socialism promises the moat radical extension of the area of freedom since the Second World War.

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THE PROBLEM OF UNEMPLOYMENT

Those halcyon days

Robin Marris rejects claims that post-war Keynesianism is to blame for today's high levels of unemployment

CONTRARY TO THE forecasts of many (including this writer), unemployment in the UK is currently genuinely declining. Nevertheless, the task remaining before we are near back to the performance of the halcyon days of Keynesianism, remains substantial.

Many people do not acknowledge of course that those days were halcyon at all. They believe they were days of inflation and English sickness. If they are referring to the 1960s and 1970s, and specifically to inflation, they are wrong: inflation from 1950-1970 averaged no higher than the current rate. The 1970s were another matter; average unemployment 4 per cent, average inflation 11 per cent.

In the opinion of this writer, the events of the 1970s were mainly responsible for the UK's economic woes of the 1980s. World shocks produced world inflation and incipient stagflation. To this, in the early eighties, the UK added a gravely overvalued exchange rate (owing to North Sea oil), the effects of which can be calculated to have been sufficient to have explained most of our massive unemployment, and certainly all of our excess unemployment on the OECD average. At the height of that crisis, in 1980/1, our international competitive position had declined by over a third compared to 1978. At the time of writing, after the fall of the dollar, we have still not regained as much as half that loss.

This British tale has a longer historical perspective. The shocks of the 1970s and 1980s caused the true message of Keynesian political economy to be lost. That message was not very Left Wing, and was profoundly distasteful to Marxian socialists. It said that a free market economy was (and is) an excellent engine for fostering incentives and allocating resources, but, being possessed of positive feed-back, was inherently macroecooomically unstable. Various built-in stabilisers saved us from total chaos, the end-result being e system which oscillated sharply between limits. For the era before World War I, the graph demonstrates this famous trade cycle indeed graphically.

Governments, however, the message ran, may influence the picture massively. When they fight total wars, they reduce unemployment to nothing, while sometimes containing inflation (average inflation rate during World War I, 60 per cent; during World War II, 15 per cent). When they fight inflationary shocks with monetary tightness, they pay a price in recession and unemployment. Between such extremes, if they can succeed, as they seemed to do from 1945 to 1970, in maintaining a high and steady level of real demand, and yet restrain inflation, they can eliminate the trade cycle, keep unemployment down and encourage economic growth.

Economic growth, however, requires a satisfactory response from the supply side: in the UK, as is well known, the supply performance (i.e. productivity growth) in 1945-70 was internationally unsatisfactory. It was however better than any previous UK performance.

In contrast, between the two World Wars, when governments tended to behave in a destabilizing manner, the results (see graph) were catastrophic. Some have seen an analogy between Britaio's inter-war experience and recent British experience. In the 1930-33 crisis, our unemployment, though enormous, was actually less than in the US (where the rate for e time topped 33 per ceot). But by international comparison, we had an extremely poor record in the 1920s.

This is usually now attributed to over-rapid demobilisation 1918-22, and a sharp re-valuation of the exchange rate by the then Chancellor, Winston Churchill in 1924. The resulting crisis in the coal industry (wages had to be reduced) led to the General Strike of 1926 and created class memories whose influence on British politics, and on British economics, have only recently begun to fade.

But the analogy is not good. Whereas the exchange re-valuation of 1924 was e deliberate, and epparently economically perverse, government act, the exchange appreciation of 1979 was the result of North Sea oil, and would not, as such, have beeo easy to evoid. Furthermore, at the time, it provided merciful assistance against the then rampant inflation. lo thinking about alternative policies for the time, one my think of the last days of Callaghan, or what has happened in Mexico.

This thought suggests e more general lesson to be learned from attempts to compare the events of the 1970s and 1980s with those of yesteryear. If one reads Keynes 1940 pamphlet called *How to Pay for the War*, one sees at work the mind of a man who is only too well eware of the perils of inflation and of the general difficulty of containing the spiral in times of full employment.

Had he survived I am sure he would have joined his followers in increasingly emphasising the difficulty of "managing" a full-employment economy which retained cost-pushiog institutions like trade unions and monopolies. The graph shows that even before 1970, there was an upwards creep in unemployment. There was not, in fact, any convincing evidence of accelerating inflation, but it could, oevertheless, be said that the task of "macro management" was becoming increasingly tense.

In any event, no Keynesian, and certainly not Keynes himself, would ever have predicted that it would be easy to manage one's way out of the type of situation created by the subsequent shocks, first the general commodity boom, then the fourfold rise in the price of oil, inside one night at the end of 1973.

But were not the shocks themselves, many ask, the accumulated product of the 30 years of Keynesianism? I think this suggestion is quite untenable. Why 1973, rather than 1963 or 1953?

It is my opinion that, since around the time of President Lyndon Johnson(1963-69), the world economy has been essentially suffering from progressive non-management of the US economy. The non-US rich-country economy is smaller and faster growing than the US, but, of course, not unified.

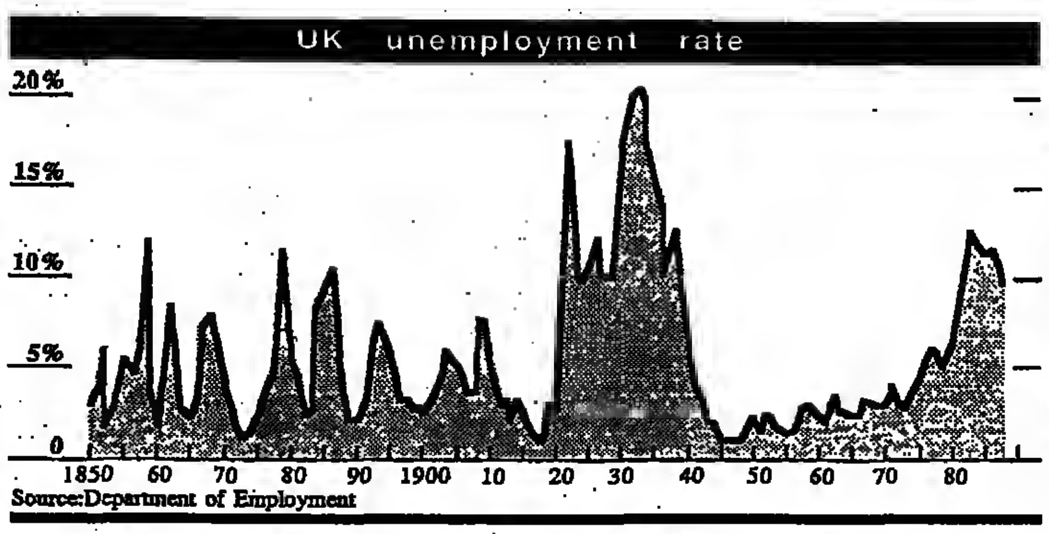
American presidents, increasingly disqualified by the media-dominated electoral process from the actual task of government, have tried to satisfy the needs of the welfare state and the need or desire to re-arm, while also averse to taxation. In consequence we had first the Vietnam inflation, which led in turn to the 1970s price shocks, finally followed by the Reagan era with its perverse mixture of tight money and fiscal profligacy.

Faced with all this, and faced with an economy long weak on the supply side, it is not in retrospect surprising that in Britain, Thatcher/Lawsonism has seemed to many the Only Way. Perhaps indeed it was. Of course I do not want to think so. But I am equally sure that the message of the long graph is not, as casual inspection might suggest, "under capitalism, unemployment always comes back".

I am sure that the true message is that with good guidance, the conditions of the 1950s and 1960s, no doubt in a different form (with a stronger supply side), can and will be regained.

The burgeoning prosperity of large parts of the national economy, currently evident to all eyes, is an obvious indicator. Let us hope the centenary year of the Financial Times heralds confirmation thereof.

□ *The author is Professor Emeritus of Economics at Birkbeck College, London University. The adjusted data are the responsibility of the author. The sources used include Peter Sinclair, Unemployment, Basil Blackwell 1987, pp. 8-14; George Alogoskoufis, Birkbeck College London University, unpublished standardised post World War II series based on UK official data: OECD Economic Outlook, June 1987, Chart G, p. 35 and Table R12, p. 167, with discussion, pp. 30-31.*



Source:Department of Employment

THE GRAPH SHOWS the history of British unemployment. It goes back nearly half a century before the Financial Times was founded, and after 1970 includes e comparison with the "OECD everage" (rich, industrialized western economies). 1988 figures are forecasts.

Tha dsta have been adjusted to the latest statistical guidelines of the International Labour Office. A person is counted as unemployed if he or she is out of work, fit to work, gives recent evidence of positive action to find work. Despite this conservative definition, the current figures are very high.

How can one say this, it may be asked, when, as the graph shows, the UK showed a marked improvement in 1977 end seems set to at least repeat the performance in 1988? The answer is that the UK forecast unemployment rate for 1988, eround 10 per cent is historically high. It is at least as high as the average of the inter-war period, which in turn was twice as high as average of the second half of the 19th century or the first decade of the 20th.

More importantly, 1988'a unemployment rate, which is typical of its own decade, is at least three times worse than the average for the whole period - a third of e century no less - from the end of World War Two to tha end of the nineteen seventies.

PIONEERING ECONOMISTS: JK GALBRAITH

Liberal left's lion

The Canadian-born adviser to governments has provided an antidote to the excesses of mainstream economics, says **Michael Prowse**

"POLITICAL ECONOMY", said the great Victorian economist, Alfred Marshall, "is a study of mankind in the ordinary business of life." John Kenneth Galbraith is one of very few leading post-war economists to take this dictum seriously.

While most of the profession has taken refuge in ever more abstruse mathematical models, Galbraith has written lively, accessible and extremely influential books about the real world of 20th century business and commerce. In the process, he has rejected most of the central precepts of standard neoclassical economics and become, in Lester Thurow's words, "an economist out of the mainstream of economic thought, but in the mainstream of economic events".

Galbraith was born in 1908 in a small Canadian farming community near Ontario. He started out as an agricultural economist and was, as he states in his Ambassador's Journal, "without rival as the nation's first expert on the price of hogs". The hog guru subsequently became a long-serving Harvard professor, adviser to Presidents, diplomat, best-selling author and feted champion of the American liberal left. Senator Edward Kennedy has described him as a "pioneer in trying to lead us safely across the Great Divide between the private and public sectors in American life."

War-time experience as a price controller in Washington and Galbraith's early study of agriculture (a sector of the economy where government intervention is often taken for granted) possibly help account for the vehemence of his rejection of the supposed optimising powers of Adam Smith's invisible hand.

"That the classical system in its purest form (the farm sector) will not be tolerated by its participants is a highly significant fact of modern economic life", he maintains. His research for *The Great Crash*, his classic study of the financial insanity that led to the 1929 stockmarket debacle, doubtless eliminated any remaining confidence in unfettered market forces.

Galbraith's highly individual analysis of real world economies is to be found in three major works: *American Capitalism*, *The Affluent Society* and *The New Industrial State*. As Myron Sharpe points out in his witty *John Kenneth Galbraith and the Lower Economics*, Galbraith is best described as a revolutionary because he is "not dissatisfied with this or that aspect of theory, but with its very core". While acting as one of torch-bearers of Keynesian economics in the post-war period, he developed a critique of classical theory that runs deeper than that of Keynes.

J.K.Galbraith: "There is nothing an economist should fear so much as applause..."

Keynes had accepted the validity of most of what is today called microeconomics; he merely developed a new theory of what determines the aggregate level of output and employment. Galbraith, by contrast, rejects most of modern microeconomics. Classical theory emphasises consumer sovereignty and competition between small firms in an impersonal market place; Galbraith emphasises the producer sovereignty of the modern mature corporation and its tendency to dominate the market place rather than to compete within it. His point is that the Victorian model of atomistic competition - which still holds sway in most textbooks - is the wrong starting point for analysis, being hopelessly out of date.

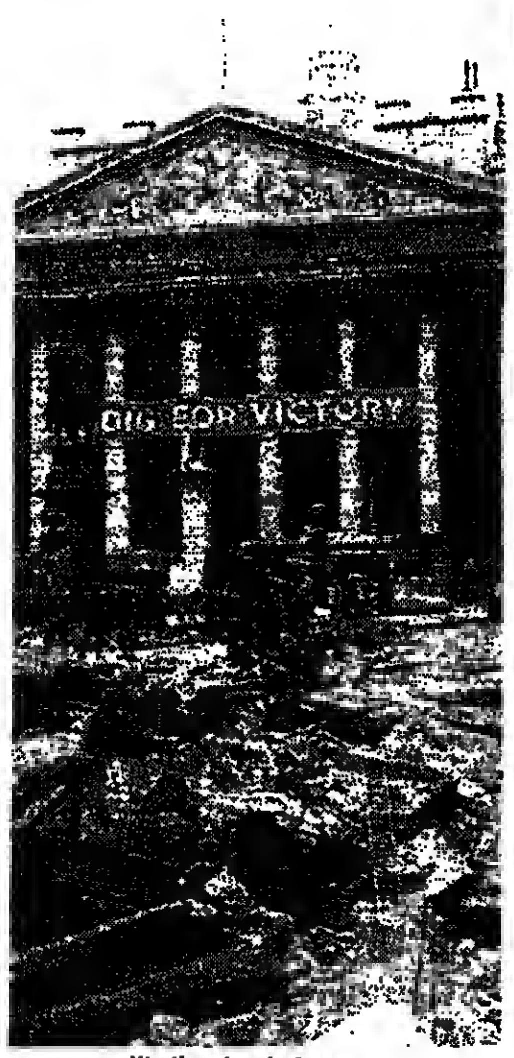
His view of the nature of modern capitalism led to a sceptical view of US antitrust policies which in the 1950s operated on the simple maxim that "big is bad". In *American Capitalism*, he noted sourly: "It is possible to prosecute a few evil-doers; it is evidently not so practical to indict a whole economy". The corporate sector needs tough regulation, but there is no point trying to make it fit the mould of atomistic competition. The Galbraithian view, ironically, has subsequently become popular with the free market Right.

In *The Affluent Society*, Galbraith extended his critique of mainstream economics by obliging Americans to examine the value-judgments underlying their economic system. Why did they allow private affluence to coexist with public squalor? Why did the quality of life not rise in line with the volume of goods? Heretically, he suggested that the maximisation of GNP might not be the only goal worth pursuing. Americans might also legitimately ask questions about its composition and its distribution; they might worry about the "social balance" achieved as well as the overall size of the cake.

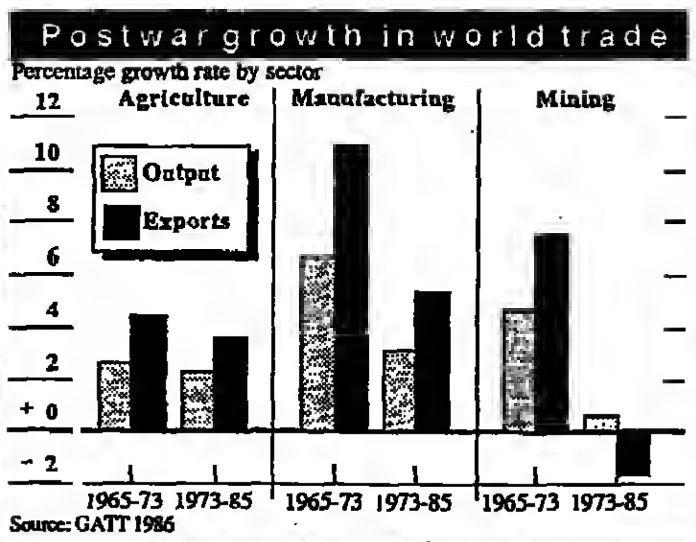
The New Industrial State develops Galbraith's theory of the modern mature corporation. As Sharpe puts it, he "heaps scorn on the absurd proposition that the managers obtain vicarious pleasure from their alleged efforts to enrich the stockholders". Decision making in Galbraith's world is by the "technostructure" (which reaches down below the top management) and on behalf of the technostructure. Profit maximisation is often well down the list of priorities. The future theory of the firm, he maintains, must primarily be a theory of bureaucratic structure and organisation.

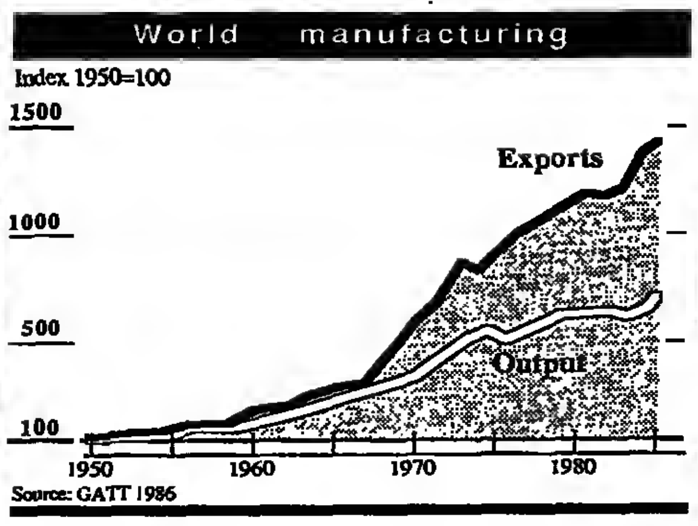
Galbraith's alternative vision of modern economic life is undoubtedly flawed. Consumers have more sovereignty than he allows; the great corporations less. His value is as an antidote to the excesses of mainstream economics, which remains less concerned with the plausibility of its assumptions than with the elegance of its algebra.

During an era when many prominent economists have pretended that the discipline is akin to s "hard science" with unchanging truths, he has emphasised its subjectivity and the importance of the value judgments that underlie all analysis. In the early 1950s he wrote tongue-in-cheek: "There is nothing an economist should fear so much as applause, and I believe I am reasonably secure." A misjudgment, surely.



Wartime bomb damage





George Marshall: aid plan helped rebuild Europe

POST-WAR ECONOMIC STRUCTURE

The pathway to prosperity

Michael Prowse analyses a period that started well but went wrong in the 1970s

AT THE END OF THE Second World War, easily the most destructive conflict in history, the outlook for sustained economic growth was not good. Europe and much of the Far East had been physically devastated and could not afford to import goods from the US - the only area of economic dynamism.

Policymakers could derive no comfort from the disastrous economic experience of the 1920s and 1930s. Once the wartime command economies had been dismantled, it would have been quite reasonable to anticipate decades of financial instability, low growth and high unemployment.

In the event, the quarter century from the late 1940s to the early 1970s was a period of unparalleled economic prosperity. In the industrial country members of the Organisation for Economic Cooperation and Development, real output grew at an annual rate of almost 5 per cent - some 2½ times as fast as in the previous four decades. The remarkable rise in GNP was associated with low inflation and virtually full employment. Progressive tax structures and generous welfare programmes ensured that the gains of economic growth were more evenly distributed than ever before.

Post-war economic prosperity was not a gift from the Gods. It was the result of human planning and cooperation on a scale never previously experienced. There was a rare determination not to repeat the errors of the past and an almost visionary willingness to create new economic structures and institutions. This was backed by a broad acceptance of the need for extensive government intervention; *laissez faire*, it was thought, had been tried and found wanting.

Economic success seemingly rested on four main pillars: the generosity of Marshall Plan aid, which greatly speeded the initial reconstruction of Europe; the creation of the Bretton Woods fixed exchange rate system and the parallel establishment of multilateral institutions such as the International Monetary Fund and the World Bank; the commitment, especially on the part of the US, to a new liberal world trading order, enshrined in the articles of the General Agreement on Tariffs and Trade (Gatt); and the intellectual triumph of Keynesian economic doctrines, which persuaded governments to take positive steps to maintain growth and high employment, rather than passively accept the economic conditions thrown up by unfettered markets.

In 1947, real per capita incomes in Western Europe were some 13 per cent lower than in 1938. In spite of strict controls on imports, Europe faced a $7bn current account deficit and a further $2bn shortfall on capital account. This was financed by *ad hoc* US and Canadian loans and by running down gold and foreign currency reserves.

By mid-year, when Secretary of State Marshall made his famous Harvard speech, it was clear that Europe needed more than piecemeal loan finance. Given the lack of dollar purchasing power abroad, US businessmen were also acutely aware that if a major aid programme were not forthcoming their export orders would tumble.

The Marshall Plan was duly put into effect with the passing of the Foreign Assistance Act in April, 1948. Over the next four years, Europe received aid worth nearly $14bn, 90 per cent of which was grants rather than loans. The aid paid for about a quarter of Europe's total imports between 1947 and 1950.

The UK received the largest amount of Marshall Aid (about a quarter of the total), but West Germany was also an important beneficiary. The decision to help the defeated aggressor was partly a reflection of America's determination to counter any further advance of Communism in Europe. But it also reflected the post-war cooperative spirit and stood in sharp contrast to the punitive reparations imposed after the First World War.

The European resource gap so generously closed by Marshall aid in the late 1940s was around 5 per cent of combined GNP. In other words, it was broadly equivalent to that faced by Third World debtors at the peak of the 1980s debt crisis. The similarity of the financing needs perhaps accounts for the recent calls for a Marshall Plan for the Third World.

US aid may have set the world economy on an expansionary path by the early 1950s, but it was certainly not sufficient to account for sustained high growth over the next 20 years. The explanation for this lies largely in the trade, exchange rate and macro-economic policies adopted after the war.

The articles of agreement of the IMF and the World Bank were signed at Bretton Woods in New Hampshire in July 1944. The monetary system conceived there was a compromise based on rival blueprints put forward by Harry Dexter White on behalf of the Americans and John Maynard Keynes for the British. The Keynes Plan proposed a new international means of payment, called bancor, and rules to ensure that countries in external surplus had an incentive to follow expansionary policies.

The White Plan was less revolutionary, putting the onus of adjustment firmly on debtors, who were to be allowed to borrow from a common currency pool only to tide them over short-term balance of payment difficulties. Unsurprisingly in view of the US's economic dominance, the system eventually administered by the IMF resembled White's proposals much more closely than Keynes's.

After the chaos of the 1930s, both men, however, were agreed on the need for greater exchange rate stability, although neither favoured an attempted return to the rigidities of the traditional gold standard. The Bretton Woods exchange rate system accordingly required IMF member countries to establish a par value for their currencies in terms of either the US dollar or gold (into which the dollar was convertible at a fixed price). Par values were to be adjusted infrequently and only in response to a "fundamental disequilibrium" in a country's balance of payments.

White and Keynes also agreed on the need for liberal trade rules. For much of its history, the US had been quite strongly protectionist. But by the 1940s it was arguing vigorously for a multilateral, non-discriminatory world trading system.

There were several reasons for the change of stance. The Americans were obviously aware of the damage caused by the tariff wars they had done so much to stimulate in the 1930s.

They also greatly resented Britain's extensive system of Commonwealth Preferences and indeed had made its abolition a condition of war-time financial support. The promotion of non-discriminatory trade policies was a tactful way of stripping the UK of its old Imperial advantages. But probably most important, during the war the US had become easily the strongest global economic power (in the late 1940s it accounted for nearly a half of world manufacturing output). Even mercantilists in the US Treasury could see that liberal trade policies would give it the best chance of dominating overseas markets.

Trade liberalisation under the auspices of the Gatt was a great success. The first round of negotiations in 1947 between 23 initial signatories resulted in 123 agreements covering 45,000 tariff items relating to about half of all world trade. By the early 1950s, the level of US duties had been substantially reduced and the number of Gatt signatories was steadily rising. The formation of the European Economic Community, later to become the world's largest common market, kept up the momentum of market opening, which culminated in the Kennedy Round of multilateral tariff reductions in the early 1960s.

The opening up of trade facilitated the transfer of technology from the US and went far to explain the unusually rapid growth in the immediate post-war decades. Without liberal trade policies, Europe and Japan would have found it much harder to catch up with high US living standards. The shortcoming of trade liberalisation was the narrowness of its scope: it never extended to agriculture, which became increasingly protected in all three major economic blocs, or to services.

The post-war era of fixed (but adjustable) exchange rates, liberal trade and expansionary macro-economic policies was a remarkable historical episode. But nothing lasts forever. By the late 1960s, the system had begun to break down. Expansionary macro policies were sustaining growth and employment, but at the cost of steadily rising inflation. The US, in deficit because of the Vietnam War, had ceased to be a reliable lynchpin for a fixed exchange rate system. The momentum of trade liberalisation had begun to founder.

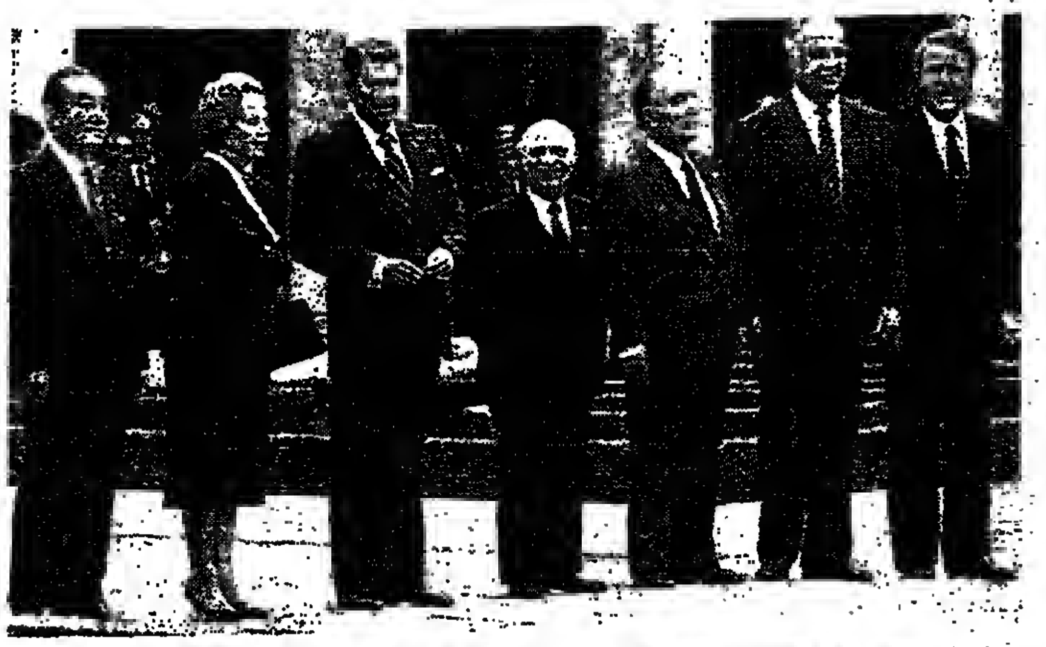
In the 1970s everything began to go wrong. President Nixon was forced to cut the link with gold and the whole Bretton Woods apparatus of fixed rates was jettisoned as industrial economies struggled to cope with high inflation and oil price supply shocks. Keynesian economics fell into disrepute. Governments abandoned their commitment to full employment. Financial instability increased.

The disintegration of the post-war economic system was painful. But it should not be allowed to detract from the very real achievements of the founding fathers in the 1940s. They put the world economy on a road to greater prosperity than would have been thought possible in the late 1930s.

WORLD ECONOMIC CO-OPERATION

Euphoria and rows behind handshakes

Philip Stephens says national interests are still put first



Leaders of the seven leading industrial nations at the 1987 Venice economic summit

PERHAPS THE most striking feature of international economic co-operation over the past few years has been the dazzling speed with which the mood has oscillated between mutual euphoria and bitter recriminations.

Few who have followed the twists and turns of policy co-ordination will forget the claim of Mr James Baker, the US Treasury Secretary, that the economic accord reached at the 1986 world economic summit in Tokyo represented the biggest advance since Bretton Woods.

Nor will they forget how hollow that sounded during the public slanging match which erupted between Washington and Bonn just three months later at the annual meeting of the International Monetary Fund.

The smiles, handshakes and outright hype which have characterised the public photocalls of finance ministers and central bankers of the Group of Seven nations have frequently been matched by vehement private bickering.

The renewed public clashes between the US and West Germany which followed last autumn's stock markets crash were unsurprising in the light of the tensions which had been simmering below the surface for much of last year.

It is easy therefore to be sceptical over the future of cooperative efforts to restore more balanced growth to the world economy.

The pessimist's analysis of events over the past few years is that from time to time the governments of the US, Japan, West Germany, France, Britain, Italy and Canada, have seen a coincidence of their national self-interest and their wider international obligations. On those occasions they have cooperated and been happy to claim the credit for their breadth of vision.

But once politicians in one or other country have seen a conflict between its domestic priorities and wider international obligations, it has had no hesitation in ditching the latter to further the former.

It is not an analysis of events which has obvious attractions. The tensions between what governments have seen as individual and mutual interests have never been difficult to spot.

They have surfaced in West Germany's consistent refusal to even think of jeopardising its commitment to virtually stable prices; in Japan's unwillingness to tackle interest groups like the government bureaucracy or farmers, in modernising its economy; and in the US' equivocal attitude to stabilisation of the dollar in the face of its massive trade deficit.

The conclusions drawn by the pessimists, however, are far less credible.

Eminent economists such as Martin Feldstein argue that because of the obvious difficulties of policy co-ordination the whole process should be abandoned.

The attempt to pursue closer cooperation over a wide range of economic policies may even be counter-productive - reducing the prospects for joint action in more limited areas like trade and defence where cooperation is actually necessary, he says.

In Mr Feldstein's analysis, many if not all of the policy changes of the last few years would have been taken anyway as a result of decisions which governments saw as being in their own narrow interests.

It is not an argument, however, that bears close scrutiny.

On one level it is rather like saying that the existence of original sin means that society will never be perfect and it is therefore fruitless to try to improve it.

More importantly, it misses the impact on policymaking of the radical changes in both the world economy and in the intellectual climate since 1985. The effect of those changes has been to create a much greater coincidence of national and mutual self-interest.

The political turning point was September 1985's Plaza accord which marked Washington's emergence from the self-imposed economic isolationism which characterised President Reagan's first term.

The accord was far from perfect. But its *raison d'etre* - a cooperative effort to reverse the burgeoning US trade deficit, initially at least by driving down the value of the dollar - marked a recognition of the interdependence of economic policies in the largest nations which Washington previously had blithely ignored.

The expected persistence into the 1990s of the deficit - and of the parallel surpluses in Japan and West Germany - means that the recognition is not likely quickly to evaporate. If by European standards, the perspective of policymakers in Washington remains parochial, it is a great deal less so than in the days when Donald Regan held sway.

The turbulence on financial markets since October has taught (most) US policymakers that they can no longer afford to address their remarks only to Capitol Hill.

An eventual reversal of the payments imbalances will not be a smooth process. The collapse of last year's Louvre accord demonstrated that there was no clear consensus on how the balance of adjustment should be split between exchange rate changes, a curb on consumption in the US and faster economic growth elsewhere.

What there is, however, is a shared analysis of the direction of policies needed in each of the major economies - on the relationships, for example, between savings and investment balances and external deficits, or on the structural obstacles to faster growth in Japan.

The consensus is that the US should aim for progressive reductions in its budget deficit to ensure that domestic demand grows less fast than the economy as a whole - a relationship which would gradually erode the trade deficit. Policy in Japan and West Germany should be directed at achieving the inverse to ensure a run-down in their surpluses.

If that seems unremarkable, it is worth remembering that in the early 1980s, senior US policymakers would not admit the existence of any link at all between the budget and trade deficits.

There has also been a broader change in the intellectual climate away from the doctrinaire free-market policies which were behind the malign neglect of the dollar in the first part of the decade.

The virtues of freely fluctuating exchange rates in an era when the volume of transactions in single day frequently totals more than $150bn are no longer obvious.

Policymakers who only five years ago suggested that the foreign exchanges represented perhaps the most perfect of markets find it difficult to rationalise the wild swings which now shift the value of major currencies by 3 or 4 per cent in a matter of minutes.

There is no agreement on what, if anything, should replace the present system. The key governments have all but ruled out a return to the fixed rates of Bretton Woods.

The Louvre accord also ran the risk of allowing governments to delude themselves that action to stabilise exchange rates could be a substitute for broader changes in policy.

But the ideas of successive French governments for a more formal system of international exchange rate management are no longer looked at as impracticable or even eccentric.

The Damascene conversion of Nigel Lawson, Britain's Chancellor, to the virtues of what he terms "managed floating" of exchange rates underlines the extent of the shift in attitudes. Just five years ago Mr Lawson was a prominent member of a Government which presided over the malign neglect of sterling, a policy which contributed to the collapse of large sections of Britain's manufacturing industry.

He now sees a coincidence of interest between Britain and the rest of Europe in promoting stable exchange rates. As yet the pound is linked only informally to the D-mark, but only Margaret Thatcher, the Prime Minister, stands in the way of full British membership of the European Monetary System.

The institutional mechanisms for broader cooperation between Europe, the US and Japan are far from perfect.

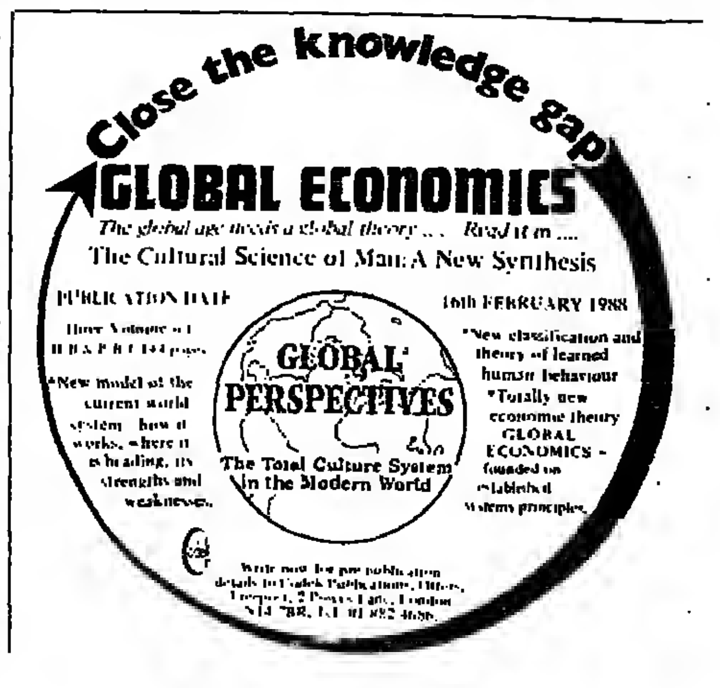
Development by the IMF of a system of objective indicators of economic policy and performance for the largest industrial economies has frequently become bogged down in theoretical arguments over detail. Is the exchange rate, for example, a measure of policy or performance?

There are also deeper arguments over the extent to which such mutual "surveillance" exercises should include automatic obligations on governments to adapt their policy. None of the major players are yet ready to see their national sovereignty infringed.

The indicators, however, have provided a framework in which the tensions between national policies and the extent to which they are contributing to more balanced growth can be more readily measured.

The medium-term analyses provided for governments by the IMF, in particular, have shown the scale of the policy adjustments needed to promote a more sustained reduction in payments imbalances - and the penalties which individual governments are likely to face if they ignore their wider obligations. Those analyses are gradually being built into the fabric of cooperation.

That fabric is still thin and might yet be torn by the insular focus in Washington in the run-up to November's presidential elections. But whatever the occasional problems, it will be difficult for even the most myopic of policymakers to reverse the growing consensus that the interdependence of interests among major economies can no longer be ignored.



MONEY SUPPLY

Anchors past and present

Samuel Brittan traces the history of money control as a policy instrument

A HUNDRED years ago the UK, like most Western countries, was following a variant of monetarism known as the Gold Standard. No estimates of the money supply were published or demanded and there were no arguments about how money should be defined.

The mechanism was all the more effective because it did not rely on sophisticated statistics or fine tuning by the Bank of England. The Mint price for gold was £3 17s 10½d per ounce (the decimal equivalent is approximately £3.894). The gold price had been set at that level in 1717 by Sir Isaac Newton, then Master of the Mint, and it remained there, except for an interval during and after the Napoleonic Wars, until 1914.

During the Gold Standard era, money consisted either of gold coins or of bank notes and bank deposits convertible into gold. The Bank of England raised Bank Rate when its ability to convert its notes and deposits into gold was threatened either by a loss of confidence internally or an external drain on its gold stock.

Although monetary historians have discovered many complications, the basic mechanism was as simple as that. Moreover, it worked in a rough and ready way.

The price level was not rigid from year to year and there were inflationary and deflationary cycles of varying lengths. For instance the consumer price index fell by 8 per cent between 1870 and 1888 (overall, not per annum) and it rose by 14 per cent between 1888 and 1913. In the three years 1870 to 1873 it rose by as much as 9 per cent. But these movements did not get out of hand and proved self-reversing. In 1913, on the eve of World War One, consumer prices were little above their 1870 levels – zero inflation for all practical purposes.

Nor could anyone say that price stability was obtained at the expense of jobs. In the three and a half decades up to 1914 unemployment averaged 4.7 per cent – far lower than in the inter-war or post-1973 period, although there were large cyclical fluctuations. Interest rates were also moderate. A crisis rate of Bank Rate, of 7 per cent, was seen in 1873 and not reached again until 1907.

Experience was not as favourable on all fronts throughout the whole Gold Standard period. But historically it still remains true that periods of price stability have been those in which the monetary unit consisted of precious metals (stamped into convenient units of standard weight known as coins) or of IOUs, notes or bank deposits convertible into specie. Superficial rationalists have rebelled against the idea of the amount of money being determined by anything as arbitrary as the supply of certain metals. But it was never as arbitrary as that.

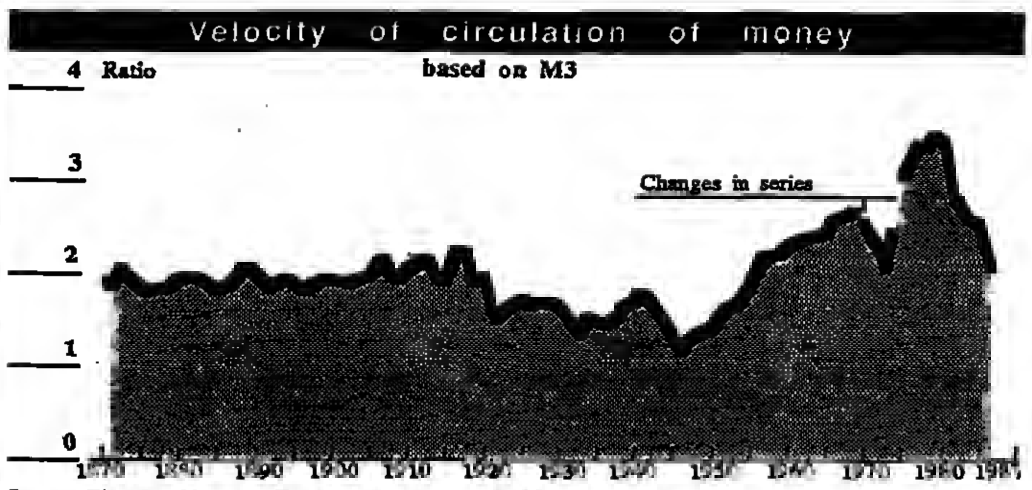
When the money stock threatened to be inadequate, the real value of gold and silver rose, creating an incentive to develop banking and credit facilities and to economise on bullion supplies. Columbus set out in search of gold and silver at a time of deflationary pressure, when the commercial revival of the 15th century was being hampered by insufficient supplies of those metals.

During the two and half centuries of broad price stability that Britain enjoyed from the reign of Charles II to World War One, there was no conscious attempt to regulate the money supply: it was automatically checked by the link with gold. In none of the periods covered by Friedman and Anna Schwartz in their *"Monetary History of the United States"* was there a conscious money supply policy. The Federal Reserve, established in 1913, acted to maintain the gold value of the dollar or – especially in later decades – to influence interest rates. The latter led for a period after World War Two to fairly stable monetary behaviour. When the Vietnam War and the budget deficits of the late 1960s rendered conventional interest rates incompatible with stable US monetary growth, the whole post-war monetary order came to an end.

There is one other historical finding to be mentioned. The record suggests that – despite all the banking crashes, financial bubbles and other crises resulting from the exuberance of unrestrained profit-seeking – the great and persistent historical inflations originated in the financing of government. Indeed, it is difficult to find long-lasting inflationary episodes which persisted in the absence of heavy government borrowing.

In summary, price stability in the past depended not on a conscious money supply policy but on two institutions, the Gold Standard and the belief in a balanced budget, which were

Richard Nixon: cut the link with gold in 1971



Sources: Figures 1871-1969 Forrest Capie & Alan Webber 'A Monetary History of the UK' Figures 1970-1987 Bank of England & CSO

not the conscious product of human design at all and contained large mythological elements.

Monetary historians examining the record, both of periods of price stability and those of inflationary and deflationary breakdowns, indeed found a link between various measures of the money supply and the nominal national income. Friedman and Schwartz found in their monetary history a fairly steady annual fall averaging 1 per cent in the velocity of US circulation of money between 1870 and 1960. Studies of more recent decades suggested a slight upward drift.

The long-run trend of output was believed to be determined by non-monetary forces such as technology, population growth or enterprise and thrift. So excessive growth in the money supply led in the end to inflation, although there might first be a temporary boom in output.

The result of these investigations was to suggest that if the stock of money were to grow by a steady annual amount corresponding to the underlying increase of real output, with a small adjustment one way or the other for the trend of velocity, not only would reasonable price stability be established, but financial policy would also be making a contribution to smoothing out cyclical fluctuations in output and employment.

For the purpose of examining a period when there was no conscious policy of controlling the quantity of money, the exact definition of money does not matter. The amount of money was determined by the gold or silver base and by the credit pyramid erected by competitive banking institutions.

Official policy was concerned at most with the convertibility of bank deposits and not with their size. Individuals decided whether to hold cash, checking (current) or savings accounts. These might be subject to different long-term velocity trends; but it makes little difference whether the historian claims that a rate of growth of 2 per cent in narrow money or 3 per cent in broad money was consistent with price stability.

Slightly different monetary rules can be formulated retrospectively; but overwhelmingly the most important principle seems to be that monetary growth should be kept at a modest rate. A wrong definition would seem to lead merely to slowly creeping inflation, easily correctable by a modest downward adjustment of the monetary target.

Similarly, the problem of whether to monitor money, financial assets or even total wealth did not arise. There was no large dead-weight government debt (ie debt not backed by productive assets) and financial assets might be expected to grow roughly in line with the nation's real wealth multiplied by the price level. Currency, financial and real assets would grow in rough proportion to the nation's wealth in periods of stability; and prolonged inflationary or deflationary episodes would reveal themselves whatever aggregate was used for measuring purposes.

Unfortunately, the basic truth of the quantity theory of money does not mean that it is easy either to measure the effective quantity of money or to control its growth in a non-inflationary way under a paper money standard. Historical experience is not necessarily a good guide to the behaviour of a purely token system when one particular range of financial asset classified as money is being controlled through central bank targets. Goodhart's Law (named after some *obiter dicta* by a former Bank of England economist, Prof Charles Goodhart) states that any monetary indicator becomes distorted as a guide to monetary conditions once it is selected for target purposes.

The invention of new monetary instruments to replace old ones – and competition between currencies – become more important as communications improve further and capital markets become even more closely linked. The abolition of exchange control in Britain in 1979 was bound to create complications for the measurement and control of the quantity of money, as the evolution of the Eurodollar market had already for the US.

The defects of monetarism, in the narrow sense of the fixed rule for domestic money supply, are that it concedes too much power to official intervention, under-rates the influence of competition in providing monetary substitutes, and takes official statistics far too much at their face value. Friedmanites are often very good at analysing how controls and regulation in the economy generally will be avoided or will produce unintended effects quite different from those their sponsors desire. But too often they evince a touching faith in governments in their own special sphere.

Despite the failings of technical monetarism, the tendency of inflation to increase from one business cycle to another – which threatened a take-off into ever-rising double digit inflation in the 1970s – has been reversed. Inflation in most countries is now back to the few per cent a year slow creep last seen in the 1950s and 1960s, and in some cases it is even less. This has been achieved by governments committed in a broad sense to sound finance, but which have nevertheless presided over a great over-run of their official monetary targets.

The reasons for the vogue of technical monetarism are nevertheless most revealing. They had little to do with the historical studies just mentioned, but everything to do with the fright with which governments took at the escalation of inflation, starting in the late 1960s, but rising dramatically after the 1973 oil price explosion. It was this fright, combined with the failure of attempts to control inflation by direct pay and price controls, which made governments search for an alternative.

The spurious precision of technical monetarism, which was couched in the same econometric garb as the rival Keynesian system, appealed to the positivist philosophy of the age. This same technocratic garb enabled politicians and populists to deceive themselves that they had a new and superior technique of economic management, when what they were really doing was switching their fiscal and interest rate policies to give priority to low inflation.

If monetarists had simply said: "Attempts to spend yourselves into full employment risk ending in accelerating inflation, so the best you can do is try to maintain a stable growth of total spending, ie money times velocity" they would have been nearer the truth than what they did say, but would have taken longer to make converts.

Continued on next page

PIONEERING ECONOMISTS: FRIEDMAN

Overwhelming impact

Walter Eltis on the influence of the monetarist advocate

IN NOVEMBER 1953, the Oxford University Political Economy Club met to discuss the world dollar problem, and the secretary who recorded the names of those present had to leave a blank for the name of one North American visitor. That blank was filled in after the meeting with the unknown guest's name, Milton Friedman.

In short, at the age of 41, Milton Friedman was still an anonymous visiting professor.

Now, aged 75, he has won a Nobel Prize for economics and is one of the two or three living economists who have had an overwhelming impact on the policies of governments throughout the world.

The members of the Oxford Political Economy Club ought to have known better since Milton Friedman had already written one of his three most notable contributions to economics.

In a major article published in 1948, he suggested that a government which wished to maintain high employment should make no efforts to adjust public expenditure and taxation in order to smooth the effects of the business cycle.

Always distrustful of the power of governments to fine tune the macroeconomy, he argued that, because of lags between the perceived need for reflationary policies and their implementation and further lags before these policies would actually begin to produce expansion, they might be entirely inappropriate by the time they took effect. The net impact of fiscal policy could just as probably be destabilising as stabilising.

Friedman proposed instead that countries should devise automatic fiscal stabilisers where the budget would move into surplus when it was booming, and into deficit when it was depressed, without any need for discretionary action by treasury ministers, who would get it wrong as often as they got it right.

The 1948 Friedman believed that it was fiscal policy that mattered, but during the 1950s he gradually rediscovered the quantity theory of money. We can say "rediscovered" because he has said that we, in the late 20th century, only know two important things about the influence of money on prices and output not found in the famous articles published by David Hume in 1752.

Starting with his 1957 restatement of the quantity theory, Friedman adapted and enriched 18th century monetary analysis so that it could be applied to 20 century economies. He went on to win a series of debates with Keynesians, most notably in 1965 when he (with Meiselman) and the Keynesian Franco Modigliano (with Ando) debated whether fluctuations in the US national income were best explained by the money supply,

Milton Friedman: a Nobel prize-winner for monetary analysis.

or by investment and government expenditure.

Friedman convinced many that money was the dominant influence, and he went back to the 1930s to show that the one-third fall in the money supply that the Federal Reserve had presided over from 1929 to 1933 was the main factor behind the one-third fall in GNP (since, if prices would not fall by one-third, the only other way in which the US economy could function with one-third less money was by producing less). So the Federal Reserve was responsible for the depth and duration of the 1930s depression by cutting the money supply, and his quantity theory claimed to explain this.

His academic articles which won his Nobel Prize have often been extremely subtle and technically sophisticated, but he has never hesitated to present very simple versions of the quantity theory in the media, and he can be devastating on television.

Few who saw it will forget how, in the 1970s, he disposed of a Cambridge professor of economics who was seeking to explain UK inflation in an entirely *ad hoc* manner, *viz*, by the rise in oil prices and the outcome of some UK labour disputes. Friedman shot back with: "You have to explain inflation with a theory which is valid more than 40 miles from Cambridge." For him the explanation of inflation was always monetary.

There are, of course, many measures of money and highly sophisticated versions of the quantity theory, and several of the world's distinguished economists established the reputations by following Friedman's lead and deriving the appropriate monetary equations and data for their own countries.

Friedman's third notable contribution was the invention, in 1968, of the "natural" or non-accelerating inflation rate of unemployment which was determined by micro labour market forces. He argued that the only sustainable way of bringing unemployment down was to cut this natural rate through policies which would increase the number of workers willing to take jobs.

A country could pull unemployment below the natural rate by expanding the money supply, the most effective way of increasing effective demand according to Friedman; but as unemployment fell the demand for labour would exceed the supply, and wages and prices would be pulled upwards so that the extra money would end up raising inflation and not employment.

Friedman has argued that the rise of average US unemployment in the 1970s (compared with the 1980s) has been quite largely due to minimum wage legislation which prevented the young and unskilled from finding work at modest rates of pay in line with their own low potential productivity.

The quantity theory led Friedman to believe that inflation control depended wholly on limiting monetary growth, while the natural rate theory meant that unemployment could only be reduced by persuading the unskilled and the unemployed to work for less.

These Friedmanite approaches to inflation and unemployment placed no onus on governments to fine-tune the economy, a task which, according to Friedman, they were in any case incompetent to discharge. The policies which follow from these theoretical contributions are obvious, and they are precisely those first adopted in Britain after Mrs Thatcher's election victory in 1979.

Many economists are naturally critical of the simplified versions of Friedmanite economics which he has propagated in the media, while his most important journal articles are 15 or more years old. His monetary equations no longer predict the data as accurately as they used to, and it would be difficult for any economist to appear on UK television today and say that inflation is down to 4 per cent because Mrs Thatcher's government has reduced the growth of the money supply to anything close to that figure.

Those who still have a high regard for Milton Friedman's economics will nonetheless respond that inflation does generally come down in societies which adopt his policies, while it invariably remains high in countries which tolerate excessive monetary expansion.

□ *The writer, a Fellow of Exeter College, Oxford, is currently Economic Director of the National Economic Development Office.*

PIONEERING ECONOMISTS: FRIEDRICH VON HAYEK

Limits of knowledge

John Gray outlines the – now – influential ideas of the veteran Austrian liberal economist

HAYEK'S CONTRIBUTIONS to political economy, social philosophy and the history of ideas span nearly 60 years, but his work in economic theory was done chiefly in the decade of the Great Depression. It was during those years that Hayek brought the Austrian School of Economics to the English-speaking world and fought and lost the intellectual battle with Keynes over the causes and cure of the world slump.

Hayek's economic theorising had little impact on economists or policy-makers for nearly 40 years, and its importance has come to be recognised only recently, as the era of postwar prosperity has come to an end. It may be that Hayek's ideas can give us an insight into our present economic discontents that we can gain nowhere else. If this is so, however, it will be because we understand the historical context of ideas and circumstances in which Hayek developed his theories, and thereby grasp their limitations in illuminating our own predicament.

Born into a distinguished academic family in Vienna in 1899, Friedrich August von Hayek was privileged to grow up in the last years of the great liberal empire of the Hapsburgs. His thought is deeply marked by the intellectual atmosphere of pre-war Vienna, and by the catastrophic collapse of political and economic order in the aftermath of the Great War. Hayek's lifelong opposition to nationalism in monetary policy, and his rejection of collectivist economic policy, can be understood in part by his belief that such policies are incompatible with the liberal world order that prevailed until 1914, and which successive generations have sought to rebuild. Even Hayek's preference for a regime of fixed exchange rates, and his opposition to floating currencies, express his conviction that a liberal order presupposes that sovereign states be restrained in their economic policies by impersonal and supranational rules.

If, then, Hayek's life-work has been to refashion the intellectual foundations of the liberal order he knew in his youth, he has used as his tools in this project the inheritances of Austrian economics and philosophy – the economics of Menger, Bohm-Bawerk and of Hayek's teacher, Wieser, and the philosophies of Ernst Mach and Ludwig Wittgenstein, Hayek's half-cousin. It was this intellectual inheritance that Hayek brought with him to England, when in 1931 he accepted the Tooke Professorship of Economics and Statistics at the London School of Economics.

From the early 1940s onwards, Hayek turned his attention from the economic theory of a liberal order to its social philosophy, publishing in 1944 his provocative and controversial *The Road to Serfdom*. He continued his work in social philosophy during his stay at the University of Chicago as a member of the Committee for Social Thought (1950-62). It was there that Hayek wrote his masterpiece, *The Constitution of Liberty* (1960). It is perhaps not an exaggeration to claim that, whereas Hayek received the Nobel Prize in 1974 for his work in economics, it is as a political economist in that broader sense in which Smith, Ricardo and Hume are political economists that he will be remembered.

Referring to the saying of the poet Archilochus, that "the fox knows many things, but the hedgehog knows one big thing," Hayek has referred to himself as a hedgehog who has spent a life-time trying to express a single thought, whose neglect in the ruling intellectual circles of our time has had major consequences for policy. The idea that runs throughout Hayek's work, in economic theory as much as in social philosophy, is that of the insuperable limitations of human knowledge.

Friedrich von Hayek: a long road to recognition

Contrary to the conception of general equilibrium theorised in the neoclassical tradition of Leon Walras, the economic problem for Hayek is not that of allocating scarce but known resources to fixed ends. Instead, the economic problem is posed by the division of knowledge in society. Neither the available resources, nor the pattern of preferences, is, or can be, known to anybody, whereas the idea of a general equilibrium presupposes the possibility of complete information being possessed by all. Market institutions, accordingly, act not as economisers in conditions of scarcity, but as discovery procedures for the transmission of dispersed knowledge in price signals.

The market process is thus a response to the most radical scarcity of all, scarcity of knowledge, and always rests on the unavoidable ignorance of market participants. This conception of the market as a discovery procedure, which Hayek developed in the 1930s as part of his criticism of the Walrasian idea of general equilibrium that he had used in his earlier writings on monetary fluctuations, was deployed by him in his two major intellectual campaigns as an economist – against the macroeconomic theorisings of Keynes and against the proposals of socialist economists for a form of comprehensive economic planning.

Hayek's critique of socialist planning, made in seminal articles in the late 1930s and early 1940s, have been amply corroborated by the historical experience of the socialist blocs, and have been largely accepted by Marxist economists both East and West. It is partly due to the belated recognition of Hayek's intellectual victory over the socialist economists in the 1930s that socialist discussion centres now, almost exclusively, on questions of worker co-operatives and market socialism.

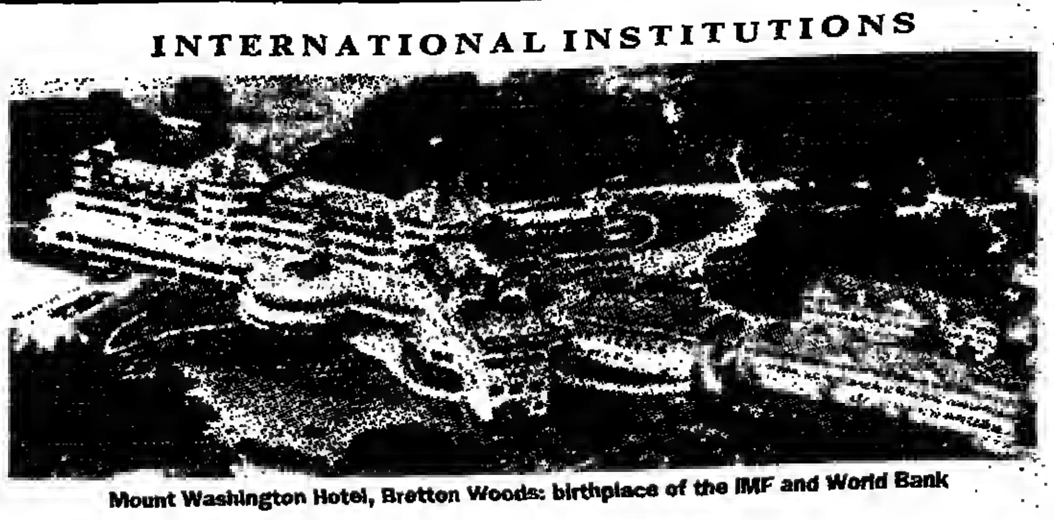
Hayek's argument with Keynes – in which, to his own lasting regret, he produced no systemic refutation of the claims of *The General Theory* – turns on distinct, though connected arguments. For Hayek, the real economy consists in a massively complex, and constantly changing, structure of relative prices which can be modelled only very inadequately by theorists or policy-makers. To maintain, as Keynes did, that recession could be explained by a deficiency in aggregate demand, is to attribute to statistical fictions a causal power they do not possess. Reliance on macroeconomic aggregations in theory and policy carries with it dangers which go unrecognised in Keynes's theory, which supports the idea that disco-ordinations in the market process can be removed by manipulating the supply of money and credit.

Hayek's conception of the real economy as an almost infinitely elusive complex structure of changing relativities accounts for his opposition not only to Keynesian policies of demand management, but also to Friedmanite monetarism. For the latter supposes that "money" is an objectively identifiable and controllable variable, whose manipulation by central banks can have exact and predictable effects on economic activity. Hayek has always rejected this monetarist credo, if only because it ignores the subjectivity of money and other economic phenomena, which are not independent items in the world, but solely projections of human beliefs and expectations.

Hayek's scepticism of the power of human reason, and his insistence on the unavoidable ignorance of policy makers and market participants, are at the root of his defence of a limited government which sets the rules of the game of the market but does not seek to achieve specific results from the market process. This is the classical liberal agenda for the state, which Hayek stated in *The Constitution of Liberty*, and which he has refined in later writings. His more recent proposals, for a regime of competing private currencies and for a complicated form of bicameralism, have found little favour among his followers, and are likely to have still less impact on policy.

John Gray is a Fellow of Jesus College, Oxford, and the author of a recent biography of Hayek

INTERNATIONAL INSTITUTIONS



Mount Washington Hotel, Bretton Woods: birthplace of the IMF and World Bank

World's handmaidens

The IMF and World Bank have both adopted new roles, says Martin Wolf

IF THE World Bank and IMF did not exist, would anyone bother to invent them? This question arises quite naturally 44 years after the conference at Bretton Woods. The questions are rendered more pressing, however, by subsequent changes in the roles of the two institutions.

Ever since the first oil shock the IMF has concentrated increasingly on the adjustment problems of developing countries. In this way the IMF's managing directors have displayed great entrepreneurship. After all, the IMF's official *raison d'etre* disappeared in 1971, along with fixed exchange rates. In its adaptability the IMF has shown that international institutions, unlike old soldiers, need not fade away. They can change their function instead.

Adjustment assistance has become of increasing importance to the World Bank, too. Indeed, developing countries could be forgiven for thinking that too many institutions assist with adjustment, while still offering insufficient assistance.

Events have forced the World Bank, like the IMF, in this direction. The ability of its clients to pursue the development programmes that are its *raison d'etre* has been impaired, dramatically in certain cases, by the adjustment problems associated with the two oil shocks and, above all, external indebtedness.

Such a convergence of the two institutions is far from the initial intention. US policy-makers had believed that international institutions with universal membership were a necessary element in the plan for a better world. But among these institutions, two, the IMF and the subsequently still-born International Trade Organisation, were to have a special role as guardians of rules governing money and international trade, respectively. Meanwhile, the World Bank was established to lend for postwar reconstruction and global economic development.

The rules in the IMF's charter were designed to achieve currency convertibility on current account of the balance of payments and a system of fixed, but adjustable, exchange rates. The IMF's power to supply hard currency to countries experiencing balance of payments difficulties was aimed at preserving rates of exchange against temporary pressures, thus avoiding recession or the introduction of exchange and import controls in deficit countries.

In the event, the enormity of both the postwar imbalances and the task of reconstruction left both institutions on the sidelines. It was the Marshall Plan and its progeny, the Organisation for European Economic Cooperation, that oversaw the return to normality.

The World Bank started modestly and with an orientation towards lending for reconstruction. The shift to development lending occurred during the 1950s and was further enhanced by the creation of its arm for soft lending, the International Development Association (IDA), in 1960. Since World Bank money is borrowed from capital markets, borrowers must be creditworthy. The World Bank had already become a development agency. With IDA it became an aid agency as well.

The IMF's start was also a slow one, general convertibility of the major developed countries only being restored in 1958. The IMF's subsequent reign over the exchange rate system was both brief and troubled, in effect ending in the early 1970s.

At Bretton Woods it had been taken for granted that the US would be a creditor country. For this reason, the US had rejected the more ambitious plans proposed by Lord Keynes, so ensuring that the ability of the IMF to supply liquidity to countries in difficulties would be limited. The parsimony of the US was to rebound on itself far more swiftly than anyone guessed.

The inadequacy of IMF arrangements became obvious as the US balance of payments deteriorated in the 1960s. There was a flood of dollars, simultaneously providing the liquidity the world was supposed to need and undermining faith in the value of the system's key currency. Several informal arrangements were made to supplement IMF resources, but these were insufficient to halt the growing pressure on the dollar.

Irritated by the resistance to adjustment displayed by the surplus countries, the US was determined to be the one weak currency country to enjoy full monetary autonomy, whatever its formal obligations. Accordingly, the US engineered a devaluation of its currency in 1971, which led to generalised floating. The US desire for autonomy has since remained the most important single feature of both US policy and the international monetary system.

With the arrival of floating and the tendency of the principal developed countries to manage their affairs by joint consultations outside its framework, the IMF's main role had disappeared. Moreover, the improved access of developed countries to private capital and the increasing orthodoxy of the financial policies of most of the developed countries has further undermined the IMF's influence. Surveillance has replaced effective supervision, the IMF becoming ever more exclusively the guardian of financial orthodoxy in the developing world.

The World Bank, too, experienced significant, though much less traumatic, changes in the 1960s and 1970s. Under Robert McNamara (1968-1981) the Bank's operations increased greatly in size, World Bank approved loans rising from \$847m in 1968 to \$8.8bn in 1981 (more than tripling in real terms). Meanwhile, the Bank's orientation shifted somewhat from lending for infrastructure towards lending for directly productive activity, notably agriculture. Equally important was McNamara's ability to seize the high moral ground with his crusade against "absolute poverty."

It is a paradox of McNamara's period of office that the expansion of the Bank made it only marginally more important as a source of finance for developing countries. In 1973 when the World Bank's net lending (excluding IDA) was \$725m, it accounted for 3.6 per cent of total public and private net lending plus transfers to developing countries. By 1980 the World Bank's net lending was still only 4.4 per cent of the total. Meanwhile, the commercial banks emerged and then disappeared, like shooting stars.

The cloud of the oil shocks and the developing country debt crisis in 1982 proved to have a silver lining for the Fund. The Bank found it difficult to respond, partly because of uninspired leadership from its then president, A.W. Clausen and partly because of a traumatic reorganisation under his successor, Barber Conable. The Bank's inertia may, however, have been a blessing, since the debt problem appears more likely to destroy the international institutions closely involved than to be solved by them.

That the opportunity offered by the debt of developing countries is a poisoned chalice must have become increasingly obvious to the IMF. Its normal terms and conditions are certainly inappropriate for what is not a temporary liquidity problem and its standard remedies, if appropriate, are bitterly resented.

Even if the present tentative plans for global exchange rate management were to come to fruition, the IMF is unlikely to play more than a minor role. The IMF will, therefore, continue to concentrate on the problems of developing countries. Consequently, the IMF and World Bank are doomed to ever closer co-operation while grappling with problems that – in the absence of effective leverage over the developed countries – are as much outside their capacity to solve as was the plight of the world economy immediately after the Second World War.

The past 40 years has taught the world that the twin children of Bretton Woods play a valuable role, though one that might now be better played by one rather than two institutions. But we have also learned that such institutions can only be handmaidens of the world economy, the order itself depending, as it has always done, on the often faltering wisdom of the world's principal economic powers.

Anchors past and present

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There is indeed a common core of common sense to both the Keynesian and the monetary positions. This is that the growth of demand and of national income should be maintained at a steady rate. The hubris of the monetarists was to insist on a stable relationship between that growth and particular monetary aggregates. The hubris of the Keynesians was in their response to evidence that increases in demand and income were being dissipated in higher inflation rather than promoting full employment. Their response was to inject even more spending power into the economy, hoping that this would not affect inflation or that the inflationary consequences could be smothered by so-called incomes policies.

Readers of the Financial Times may be aware of my articles proposing to extract the common core of sense from both monetarist and Keynesian doctrines by governments attempting to keep the growth of total national expenditure (and therefore national income) on as stable a path as possible. The division of this growth between extra output and rising prices is not one that governments can influence directly. They can, however, provide a stable framework within which people can adjust their own wage and price decisions in the knowledge that they will not be bailed out of their mistakes by inflationary injections of demand.

Even the German Bundesbank – the last remaining official stronghold of technical monetarism – has in practice been prepared to override monetary targets when velocity has fallen unexpectedly. But once national authorities start looking at money in conjunction with velocity they are using Nominal GDP as a guide whether they know it or not. A conscious avowal of that fact might enable action to be taken more promptly and with less sense of guilt. It would also provide a better guide than the more usual meaningless formula of "taking all indicators into consideration."

I wish I could leave the matter there. But the experience of the 1980s suggests that it is not enough for each country to pursue sound policies in isolation, irrespective of how these policies are defined.

Contrary to what many monetarists and Keynesians alike had hoped, the floating exchange rates of the last decade and a half have been plagued by huge swings. These go far beyond the short-term volatility disliked by traders or the overshooting of the textbooks, but have involved long-term swings of plus or minus 30 per cent or more (and therefore a total amplitude of 60 per cent) in the exchange rates of leading currencies against the dollar.

Simply to try to fix exchange rates or even narrow their movements, whether by intervention or monetary policy, could impart a major inflationary or deflationary bias – more likely the former – to the world. Moreover, the underlying imbalances – for instance in the fiscal policy of different countries – would remain.

Any system of fixed or even managed exchange rates would do more harm than good unless there were some anchor to prevent the international system as a whole from running haywire. So the suggestion of a stable growth of Nominal GDP re-emerges in a system of managed or fixed rates as a joint aim for the core countries of the system, ie the Group of Seven, or perhaps the Group of Three – the US, Japan and Germany.

I wish this were not so. I should be happier with an international monetary regime based more on rules than on negotiation, forecasting and national income statistics.

Unfortunately, I do not think the old Gold Standard can be restored. The mere knowledge that it was being reintroduced at a price of around \$500 per ounce, compared with the \$35 an ounce which President Nixon abandoned in 1971, would undermine credibility in the maintenance of the new rate in the face of political difficulty. There is also the more fundamental uncertainty about whether the growth of multiple reserve banking – ie, the creation of large deposits on a small gold base in inverse pyramid fashion – would undermine the system. That it did not do so up to World War One is an insufficient guarantee for the more financially inventive world in which we live.

Devising the rules of an international system will be a task for the second century of the Financial Times.

The figures on economic performance under the Gold Standard are taken from C H Feinstein, Statistical Tables of National Income of the UK 1855-1965, Cambridge, 1976.

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THE THIRD WORLD

A diverging decade

Why, **Robert Cassen** asks, have only some developing countries managed to prosper?

JUST ABOUT everything and its opposite can be illustrated somewhere in the developing world. Even though almost all countries have grown more slowly in the 1980s than before, there are some that have grown faster, including the two giants, China and India.

China has benefited considerably from its economic reforms; neither has borrowed heavily abroad; and both are relatively little affected by the behaviour of the world economy. But those affected have suffered, many dramatically. The 1980s really do seem like a great divide.

Until then, most parts of the Third World had made considerable progress. Between 1960 and 1980, life expectancy grew by about 10 years; there were very large increases in literacy and educational enrolment; in the 1970s, population growth rates began to come down in most of Asia and Latin America.

As in most things, such progress was least marked in Sub-Saharan Africa (SSA) and the poorest countries in Asia, such as Bangladesh and Nepal. This was equally true of economic growth, which was particularly strong in South-east Asia and Latin America.

The major international upheaval was that of oil prices – but, for most of the Third World, even that cost only about 1 per cent on annual growth rates. Look at the figures for oil-importing developing countries:

Annual growth for the East Asia and Pacific countries was 8.2 per cent for 1960-73, 7.5 per cent for 1973-80. Over the same periods, growth in Latin America and the Caribbean fell from 5.9 to 5.4 per cent; for SSA from 4.4 to 3.3 per cent.

The industrial market economies fell off more in growth-rate terms: from 5.1 to 2.5 per cent. But at least the Third World did grow. In the 1980s, Latin America and the Caribbean have hardly grown at all, and four countries (Argentina, Trinidad, Uruguay and Venezuela) have gone backwards, as have eight of the poorest countries, seven of them in Africa.

To what do the successful countries owe their success, or the unsuccessful their failure? Naturally there are many explanations, not to say fashions. It must be said that the behaviour of the world economy has much to do with it.

The 1980s recession has been unusually long and deep, and has had some peculiar features: the combination of recession and high real interest rates has only one precedent in this century, a brief period in the 1930s. It is not in our textbooks; but it has been ruinous for the big borrowers. And commodity prices have been extremely low – still an important factor even for the more advanced developing countries, and crucial for the poorer ones.

Yet one cannot attribute everything to external conditions. In good times and bad, some countries do better than others. What really needs explaining is relative success or failure in comparable circumstances. Obviously manufacturing performance is one of the keys. How did South Korea manage export growth of 34 per cent a year in the 1960s and 23 per cent in the 1970s (and even 13 per cent in 1980-85, more than three times the developing countries' average)?

For some, it is a triumph for market-forces – but anyone who knows Korea would not be content with that; it is a highly controlled economy, with government interventions at innumerable points, not least in banking and investment decisions.

The marketeer would say that Korea has succeeded despite the controls; others would attribute a share of the country's success to them, but would emphasise the skill of their administration, the degree of co-operation between government and business, and the competitiveness of domestic markets. Lesson one seems to be that it is not the *extent* of government intervention that matters, but its quality.

It is certainly possible to hinder development by poor intervention. Exporting manufactures has been a growth escalator, but many countries have failed to climb on to it. Some, especially in Africa, scarcely had a chance. But others were well placed and have missed the boat. India in the 1950s was one of the world's major industrial producers. But its system of exchange and import controls and industrial investment licensing have contributed to holding it back.

Of course, there have been many other problems – power shortage, inadequate transport, lack of capital and foreign exchange – but the control system itself has helped to strangle industrial development. The objectives of the controls were admirable enough – to ration scarce foreign exchange, to curb the growth of monopolistic conglomerates, to promote indigenous technology and production, to create regional balance – but they have not achieved them.

A young woman refugee in a Mozambique relief camp.

Annual growth

Real GDP (%)

Countries	1965-80	1980-85
All developing	6.0	3.3
Low income:		
China	6.4	9.8
India	3.8	5.2
Other	3.2	2.8
Sub-Saharan Africa	5.3	−0.7
Middle income:	6.5	1.7
Brazil	9.0	1.3
Mexico	6.5	0.8
S Korea	9.5	7.9
Hong Kong	8.5	5.9
Singapore	10.2	6.5
Industrial (excl E Eur)	3.7	8.3

(The sources for the Table and all figures in this article are the World Bank's World Development Reports various issues.)

Perhaps lesson two is that controls exerted with the aim of establishing internationally competitive industries may succeed; those whose aims are primarily social and political rarely promote growth or social justice.

It is obviously not the degree of freedom for market forces alone, or the control regime, that account for the success of the major Third World exporters of manufactures. They had the trained and skilled people, the administration, the infrastructue. If you ask why Africa has been in such travail, the absence of these things strikes you at once. And they are not the only missing elements.

Most of the SSA countries have had independence only for 25 years or less; they have been subject to serious political instability, and the contending forces have often acted in a way peculiarly damaging to economic development. The commodities they produce have weak market prospects, and have gone through unsettling booms and busts. Agro-climatic conditions are also extremely intractable.

It is not just the droughts, which have been so notable recently, but the extraordinary variety of soil-types and moisture conditions. A tiny number of new types of seeds could be planted over the entire irrigated wheat areas of Northern India and begin the Green Revolution. In Africa, any new plant varieties have to be adapted to highly localised conditions – a research job which is woefully behindhand. Today many African economies are crumbling, soils deteriorating, and forest cover diminishing, at a time when populations are still doubling every 20 to 30 years. The tasks ahead are daunting.

One of the encouraging signs is a new willingness in Africa to reform economic policies. If the domestic and external conditions for growth are difficult, at least they need not be compounded by self-inflicted wounds. That is not too strong a phrase for the mix of overvalued exchange-rates, public sector mismanagement, disincentive tax and pricing policies and ill-conceived regulation which has been so damaging to many African economies. Recognising their own plight, and encouraged by the international agencies, many have embarked on reform measures, with some promising results already.

For the World Bank and the IMF, these are in many ways new departures. Some within the Bank have voiced concern at moving so far from the traditional role of pure project-lending; for others, policy-based lending represents a much more powerful instrument for influencing development. Of course it is – provided it is well done.

A few observers have accused the Bank of going overboard in favour of market forces. Such a view may have been encouraged by some of its recent publications, but its practice has been more sophisticated. "Getting prices right" is necessary; but far from sufficient. (Lesson three?) In agriculture, the research has to be done and the inputs, markets and transport provided. For manufacturers, Africa lacks much of the institutional basis for enterprise growth – banking, accounting, legal services; deregulation alone will not be enough. In trade as well, "outward orientation" is fine – but countries have to be ready for it.

The Fund, too, is preparing itself for a new role in Africa, with its much-needed Structural Adjustment Facility. African countries need a longer lead time for adjustment than has often been granted. Some of their fears of deregulation and trade liberalisation are well grounded, and they will have to be supported as they proceed.

Both Bank and Fund should now be entering on a new era of adjustment, and not just for Africa. The Baker Plan was a recognition that adjustment via contraction was not working; it willed the new end, adjustment with growth – but so far neither the US nor the other donor countries have willed the means. They have not yet grasped the nettle, either, of a major role for public agencies in intermediation of the debt problem, which is surely overdue. Compared with 1973, when much was done, the international community has responded quite inadequately to the current crisis.

In the end, there are some impenetrable mysteries about economic development. We know quite a lot about what helps and what hinders. But no one can guarantee to make it happen in the real, political, world.

Many developing countries have made enormous strides in the last 30 years, some from beginnings that seemed as unpromising then as the poorest countries face now. This is comforting to the development-watcher; less so to the hundreds of millions who live daily with a degree of deprivation that is potentially avoidable.

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THE PROBLEM OF DEBT

A borrowers' market

Anatole Kaletsky finds the lessons of history have not been learnt

"The fiscal history of Latin America is replete with instances of governmental defaults. Borrowing and defaults follow each other with almost perfect regularity. When payment has resumed, the past is easily forgotten and a new borrowing orgy ensues. This process started at the beginning of the past century and continues down to the present day. It has taught us nothing."

THOSE WORDS appeared in 1933 in a book called *Foreign Bonds: An Autopsy*, by a former New York investment banker, Max Winkler. They could have been written with even more authority in 1982, after the climax of the latest borrowing orgy in Latin America – an orgy which confirmed with an uncanny precision the "perfect regularity" of sovereign defaults to which Winkler and dozens of other commentators had drawn attention 50 years earlier.

Nearly every country involved in the debt crisis of the 1980s defaulted on its foreign debts between 1931 and 1933. Practically all the defaulters of the 1930s had previously defaulted in the 1870s. And most of the Latin American countries that were already independent nations in the 1820s defaulted then as well.

In fact, only three Latin American states continued to pay their debts throughout the 1930s: the Dominican Republic, Venezuela and Argentina. To underline the historic parallels, several of the Eastern European nations whose insolvencies in 1980 and 1981 foreshadowed the latest Third World debt crisis, were also among the defaulters of the 1930s. Poland and Hungary suspended debt payments in 1931; Romania and Yugoslavia joined them a few months later.

These defaults were not just transitory or small-scale disturbances. They figured just as prominently as the latest debt crisis in the financial news in America and Europe, and they caused massive losses for tens of thousands of investors who had put their fortunes in Latin American bonds.

Mexico, for example, owed over $500m in 1932 when it finally abrogated all its loan agreements. Eleven years later, it ended its default by paying bond-holders less than $50m in "full settlement" of its obligations.

While $500m was a relatively modest sum, even when adjusted for inflation, compared with Mexico's present day debt of $100bn, the sudden collapse of lending to Latin America by US and European investors in the late 1920s is widely considered to have made an important contribution to the worldwide economic seizure of the 1930s.

The defaults of the 1930s also threw up numerous peripheral phenomena that would be strikingly familiar to anyone who has followed the financial news of the last five years.

There were indignant hearings in the US Congress, which found "the scandalous practices and abuses" of American bankers primarily to blame for the crisis. It was discovered, for example, that the son of the dictator of Peru had been paid millions of dollars in bribes by US banks to convince his father of their country's need for more foreign loans.

There were commissions of international financial experts dispatched to Latin America and central Europe, along the lines of the current IMF missions, to recommend "adjustment policies" that would permit the speedy resumption of payments on the foreign loans. Usually these commissions returned with reassuring statements about the countries they had investigated, and these were followed closely by further defaults.

"Brazil has all but turned the corner on its difficulties," the Bank of England's Sir Otto Niemeyer reported in July 1931, for example. Less than a month later the country declared a total moratorium on all its debt payments – a default that was not settled until the late 1940s.

Yet, despite all these parallels, the cynics of the 1930s were proved right. A few decades later the world's finances had totally forgotten about their grandparents' debacles in the Third World.

Few of the young lending officers that the banks unleashed on Latin America in the 1970s had any interest in history – and their superiors did nothing to apprise them of the continent's dismal borrowing record. Even by the autumn of 1982, after Mexico had stunned the financial world by suspending its interest payments, most bankers believed that a long-term default by a sovereign nation was literally an impossibility – countries "just don't go bust," the bankers repeated, with a hypnotic conviction, to anybody who cared to listen.

Thus, as late as September 1982, Mr Walter Wriston, the chairman of Citicorp, and the dominant figure of the decade in the American and international banking business, was able to write unrepentantly in The New York Times:

"Over the years a lot of intellectual capital has been invested in the proposition that massive defaults by developing countries will eventually cause a severe world financial crisis. Those who took that view in 1973-74 have been proved wrong, and those of us who believed that the market would absorb the shock of skyrocketing oil prices proved correct."

Mr Wriston's main argument for this self-confident assertion displayed the casual disregard for history that has always been a hallmark of financial manias:

"A country does not go bankrupt. Bankruptcy is a procedure developed in Western law to forgive the obligations of a person or company that owes more than it has. Any country, however badly off, will own more than it owes."

During the 1970s, statements like this echoed through every bank boardroom in America and Europe, to the consternation of the few monetary officials – like Governor Henry Wallich, of the US Federal Reserve Board, and Lord Harold Lever, in the British Government – who were trying to remind a complacent world of the financial disasters of the past.

Why were their warnings ignored? Partly for the reason that underlies all speculative

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A NEW SUPERPOWER

An unchallenged export boom

A highly effective economic system lies behind Japan's industrial success, reports **Ian Rodger**

THE STRIKING aspect about most accounts of Japan's rise to the status of economic superpower in the past 20 years is how much they under-estimated what the country would achieve. In the mid-1960s, it was widely predicted that Japan's rapid growth would soon come to an end because its labour force was no longer the cheapest among industrialising countries.

In the mid-1970s, inflation and the soaring cost of oil were said to be the forces that would cripple the country's industrial advance, and in the mid-1980s, the rapid rise in the value of the yen would do the trick.

Despite these predictions, Japan has continued to advance to the point where it now has the largest per capita income in the world, is the world's largest creditor and is the undisputed leader in many high technology industries. And there is no sign yet that its economy is running out of drive.

About the only thing that can be said in defence of these miscalculations is that many Japanese analysts made them as well. From the Japanese vantage point, it was probably difficult to imagine anything much better than life as it was in the late 1960s. The dash for growth that had begun soon after the Second World War had largely achieved its objectives. The country had just moved ahead of West Germany to become the second largest economy in the world, and it was still enjoying booming growth (average 12 per cent between 1966 and 1970).

Structurally, the economy had successfully shifted its base from light, low technology industries, such as textiles, to heavy industries – mainly automobiles and shipbuilding – supported by a strong steel industry, and was already making an impact on the fast-growing world of consumer electronics.

The dual structure of employment – high paid and guaranteed jobs in the leading companies, sweatshops elsewhere – was gradually disappearing. In 1950, textiles accounted for half of Japan's exports, by 1975, only 5 per cent. In 1956, Japan exported 45 cars; in 1971, it exported more than 1m.

The country's trade balance, which had oscillated worryingly between small deficits and surpluses through the 1950s and early 1960s, moved decisively into the black in the late 1960s as the great export boom began to gather momentum.

Japanese electronics destined for export: a ready market overseas

The success of Expo 70 in Osaka, coming after the 1964 Olympics in Tokyo, added to a growing sense of confidence among the Japanese. It was at this point – in 1971 – that the country was hit by its first major external shock, the Smithsonian agreement which abolished fixed currencies, causing a sharp devaluation of the dollar against the yen.

After trying briefly – and expensively – to maintain the yen at its Y360 to the dollar level, the Japanese authorities gave up and let it rise. As in the past two years since the yen's latest rise, many economists argued then that it was time to reduce the emphasis on exports and to shift the direction of the economy to developing a higher standard of living and better quality of life at home.

It is tantalising, if idle, to wonder what would have happened if such a policy had been enacted and had been allowed to run its course. Would the Japanese have acquired a taste for consumption? Would they have lost some of their drive? Would they have become more leisure-oriented?

We will never know because, before such a policy could be established, the country was hit by its second external shock – the huge rise of oil prices in 1973. Japan is almost totally dependent on imported energy, and so the oil shock hit it harder than any other industrialised country. It also exposed the underlying fragility of the country's industrial base.

For all the progress that had been made, Japan still relied to a considerable extent on low wages to compensate for indifferent productivity. By mid-1975, industrial production was falling at a rate of 20 per cent and wholesale prices were rising.

The Japanese authorities responded to the crisis in the only way they knew. They reasserted the export-intensive policy that had been so successful in the previous 20 years. They tightened money supply and fought inflation to the ground, refusing to give way to the yelps from industry and labour until there was some evidence that real damage was occurring.

At the same time, the Government cajoled and bullied industrialists into investing more money in plant, both to increase output and improve productivity. The FT reported with amazement in February, 1975 that Japanese steelmakers were planning massive new investments, perhaps totalling 1.7bn, "in the teeth of world recession."

The steelmakers, and other leading industries, did make those investments, and within a short time, to the surprise of both themselves and their competitors, they had largely shuffled off the effects of the higher costs of oil and emerged in a much-improved competitive position.

The Japanese were among the first to discover that new investments and procedures for saving energy often brought with them improvements in product quality and other cost reductions. Because of their need to cut costs and get around a chronic manpower shortage, the Japanese were also the first to embrace the dramatic advances in industrial automation, especially computer numerically controlled (CNC) machine tools, that emerged in the mid-1970s.

As a result, they not only improved their industrial efficiency, they also became a world leader in machine tool manufacturing.

The fight back produced results remarkably quickly. In the first quarter of 1976, the economy was growing at an annualised rate of 14 per cent. That rate was not sustained, and Japan never did recover its rapid growth rate of the late 1960s, but it continued to outperform all the leading Western industrialised countries. It was also fitter than most of its competitors to face the second oil shock when it came in 1979.

Japan's most recent challenge has come from the sharp rise of the yen, from Y260 to the dollar in mid-1985 to the current Y125 level. Once again, industry has shown its capacity to adapt quickly and effectively, going through a series of restructuring moves to offset the negative effects of the high yen.

These include importing more components, building more factories abroad, squeezing suppliers at home and improving their products. They have also made the most of the savings on imported raw materials resulting from the higher yen.

The result is that Japanese industry appears poised to maintain its competitiveness in most key industries while making new incursions into other high technology sectors, such as computers, aerospace, biotechnology and new materials.

Western analysts have advanced several hypotheses to explain the exceptional performance of the Japanese economy – attributing it variously to the country's group oriented culture, strong government guidance, the existence of powerful industrial manufacturing and trading groups, their concentration on a few dynamic sectors, a rigorous education system or the availability of cheap finance.

None of these characteristics is exclusive to Japan, and so none is sufficient alone to explain the country's success. The Boston Consulting Group argued in a remarkably prescient study, published by the FT in 1974, that it was the unique combination of all the these factors that produced "the most effective economic system in the world."

However, the BCG study was particularly impressed with the leading role played by the Japanese Government. It pointed out that the Government's leadership has always been accepted by the private sector because it was the Government which initiated industrialisation in Japan in the mid-19th century.

By contrast, governments in Western countries became involved in economic development only after the limitations and failures of 19th century capitalism had become apparent, and so tensions between private and public sectors have always been present.

An excellent example of the Government's extraordinary influence and prestige in industrial matters emerged last year during the Toshiba Machine scandal, in which a Japanese machine tool-maker was caught exporting sophisticated machine tools to the Soviet Union in violation of an agreement among the Western allies.

The Ministry of International Trade and Industry (MITI) is responsible for approving exports to the Soviet Union, so it must bear some of the blame for the incident. However, no MITI minister or senior MITI official resigned or was sacked, and there was no outcry from industry against the ministry's failures. Only Toshiba officials were punished.

For all the carefully thought-out explanations of Japan's success, it is easy to lose sight of the simple ones – in particular, the astonishing failure of US industry during the past 20 years to maintain its competitiveness.

Despite their enormous resources, and despite ample warnings, the Americans, in case after case, have simply been unable or unwilling to answer Japanese industrial challenges. With transistor radios in the 1960s, cameras and black and white televisions in the 1960s, cars, colour televisions, video recorders in the 1970s, and now factory and office automation equipment, too, the Japanese have repeatedly found the going remarkably easy in the world's largest and richest market.

In the early 1980s, the US Government's high dollar policy made it even easier for the Japanese, and harder for US companies in key manufacturing sectors to survive. European companies may not have been any better equipped than their US competitors during this period to match the hard-driving Japanese, but European governments did not allow the Japanese free rein in their markets.

Japanese exports of electronic equipment to the US soared from Y1,000bn in 1976 to Y3,500bn in 1986. Over the same period, exports to the EC have grown much more slowly, and were only half as large as those to the US, in value terms.

Taxation and national debt, 1888-90

Country	Taxation (national and local) (shillings per inhabitant)	Taxation as a percentage of earnings	National debt per head (£)	Debt Service per head (£)	Approximate income per head (£)	($ 1960)
Britain	63	9.3	18.3	0.73	33.7	(785)†
France	74	13.6	32.7	1.36	27.8	(575)
Germany	45	10.4	8.9	0.34	22.2	(537)
Russia	16	7.4	8.2	0.30	11.5	(182)
Austria-Hungary	28	9.5	14.5	0.40	15.5	(361)
Italy	54	22.0	15.2	0.68	12.2	(311)
Spain	41	12.3	14.7	0.62	16.5	(321)
Portugal	33	14.0	24.0	0.76	12.1	(270)
Sweden	28	6.7			22.0	(356)
Norway	24	6.0	2.1	0.07	20.5	(523)
Denmark	35	5.5	5.2	0.23	33.5	(502)
Holland	64	15.1	19.3	0.67	22.6	(536)
Belgium	36	6.0	12.6	0.63	28.0	(630)
Greece	24	na	10.4	0.68	na	(290)
United States	40	5.4	3.6	0.16	39.0	
Australia	60	7.2	53.5	na	40.2	
Canada	24	4.6	9.8	na	26.0	
Argentina	54	11.2	42.7	na	24.0	
India	5	na	0.8	na	na	

Source: M.G. Mulhall, *Dictionary of Statistics*, London: Routledge (1892).
* Population of British India excluding native states.
† P. Bairoch, 'Europe's gross national product, 1800-1975', *Journal of European Economic History* (1975).

A TALE OF TWO TAXES

VAT takes the strain

Clive Wolman on trends in taxation

TAXATION OVER the last century has been primarily a story of the rise of two taxes: Income Tax on individuals and corporations, which spread from Britain to the rest of the world in the first seven decades, and Value Added Tax, which has been spreading from France over the last three decades.

In the 1880s, income tax, although it had been first introduced in Britain during the Napoleonic wars at the end of tha 18th century, was still applied to only a small proportion of the population at a rate of less than one per cent. At that time the only other country in the world which was imposing a system of income tax was Prussia, although France and the US had previously experimented with, and abandoned, such a system.

But by the First World War, nearly all the leading world powers had introduced some form of income tax, and after the Second World War, income tax became an almost universal phenomenon, even in the Communist countries of Eastern Europe and the developing countries - including the tax havens of Africa, Asia and Latin America. The only important exceptions are Bermuda, the Cayman Islands, the Turks and Caicos and Vanuatu.

The two world wars also encouraged the extension of income tax to corporations, although the extent to which corporate income is imputed to shareholders remains a subject of continuing controversy and reforming legislation in most countries.

According to the leading UK tax historian, Mr Basil Sabine, of the accountancy firm, Deloitte Haskins and Sells, the similarities between different income tax systems are far more important than the differences. All systems have some degree of progressivity whereby the higher income earners are taxed at a higher rate than the low earners. Most have some form of personal allowance.

The major differences are whether individuals or family units are taxed, whether income from different sources is taxed separately, according to different principles and rates, and whether income is taxed at the national or local level or both. Residence, depreciation allowances and other accounting concepts are the main sources of divergence in corporation tax.

Mr John Rodway of the Inland Revenue's International division believes that the prime factor explaining the similarities and differences in the detailed applications of income and corporation taxes is the extent of the former imperial influence of Britain, France and the US (mainly in Japan).

For the citizens of industrialised countries in the 20th century, what has been more important than the spread of income tax internationally has been the spread of income tax internally - by the continual lowering of the exemption limits - at higher and higher rates.

The ratchet effect has operated with a vengeance, particularly in the two world wars, which saw rates pushed up and then maintained in the subsequent peace, primarily to finance growing social expenditures.

The peak of the high taxation era throughout the world was reached in the 1960s and early 1970s. The seeds of the counter-revolution were, however, already being planted by three factors. One was the mounting resentment of almost all the working population in industrialised countries against high rates.

Although this was partially neutralised by the deduction of tax at source from regular earned income, in the growing informal economies of most western countries tax evasion became widespread. At the same time, the growth of tax avoidance by corporations and individuals, subject, especially on their investment income, to the higher rates, through the exploitation of all kinds of special reliefs and exemptions, prompted counter-legislation of ever-increasing complexity.

The third factor was the resurgent influence of *laissez-faire* economics which, by emphasising the distortions created by taxation, pointed in the direction of lower rates and a broader base of tax, to be achieved by the removal of most of the special exemptions.

If income tax began in 19th century Europe, the counter-revolution of the late 1970s originated in what was becoming the new centre of economic power, the Pacific basin. Proposition 13, which was directed against property taxes imposed by the state of California, was the first popular revolt against high taxation.

Within eight years, the anti-tax sentiment had been translated into what is the most detailed, complex and comprehensive pieces of tax reform in history, the US tax reform act, which cut the top rate of personal income tax to 28 per cent and the corporation tax rate to 34 per cent, as well as sweeping away a mass of special reliefs.

Other countries have taken similar, if less ambitious, steps, often prompted by the US example and the increasing sensitivity to differential international tax rates of cross-border trade, investment and migration of highly-paid managerial and professional labour.

The Anglo-Saxon countries, the UK, Canada, Australia and New Zealand, have been the most obvious reformers. New Zealand's reforms over the last two years have been even more radical than those of the US. But similar, if weaker, pressures have built up in many other European countries, such as West Germany, Norway and Belgium.

This trend has coincided with a move towards much greater international cooperation between different tax agencies which has led to a crackdown on the abuse of tax havens and other forms of tax avoidance.

The other factor that has thrown up the possibility of cuts in income tax rates in many countries has been the success of what has become the fastest-spreading tax of the second half of this century, Value Added Tax (VAT). From its origins in France, the tax has spread throughout the European Community to countries as far afield as Turkey, Indonesia, Taiwan, New Zealand and (with modifications) India. It remains on the political agenda in Japan and Canada. Only the US has ignored its attractions so far.

If the trend towards higher VAT rates and fewer exemptions (or zero-rating) continues, VAT will supplant income tax as the most important single source of revenue for several governments by the end of the century.

VAT is fundamentally different in its conception, administration and economic effects from such predecessors as purchase tax and a variety of other indirect taxes which in most countries have existed since well before the introduction of income tax.

The attractions normally claimed for VAT are that it is a powerful revenue-raiser drawing on a massively wide tax base. It creates relatively few economic distortions. It is based on economic concepts which (unlike those of "income", particularly from savings) are easy to define and difficult to avoid by artificial manouevres, and is self-policing and thus difficult to evade.

Revenues have far exceeded the projections made prior to implementation in, for example, Indonesia and southern Europe. Its chief drawback is the heavy compliance costs it imposes on small traders, particularly when they have not already absorbed an invoicing culture.

But the economic and technological changes of the second half of the century, in particular computerisation, have made VAT the quintessential modern tax.

Prof. John Kay of the London Business School and former director of the Institute for Fiscal Studies believes that this is the key factor explaining the rise of VAT and the increasing difficulties of imposing income and capital taxes on the returns from savings and investments.

The increasing ease with which economic transactions can be recorded at low cost and the mounting expenses of making and enforcing sophisticated technical judgements when the conceptual basis for imposing taxes is confused gives a clear long-term advantage to a tax like VAT, he believes.

Debt crises

Continued from page 43

fevers – greed had overcome fear. But the bankers' blind confidence seems also to have been founded on a genuine misunderstanding of the nature of sovereign debt.

Walter Wriston was right to argue that countries could not go bankrupt. But the impossibility of putting a country into bankruptcy and forcibly liquidating its assets, far from offering reassurance to lenders, is the fatal flaw in the sovereign lending relationship. In sovereign lending, the creditors' ultimate lines of defence – collateral and liquidation of assets – simply do not exist.

This means that a country's theoretical capacity to repay debts does not guarantee creditors against loss. It is the borrowers' willingness to pay that is critical. And that willingness depends on two crucial factors: how likely the country is to receive further credit, and how great is the sacrifice required to service its debts.

The reason that willingness to pay is not a problem in lending to an industrial nation like the US or Britain is that the debts are denominated in a currency which the debtor government issues itself. The US Government would never default on its dollar obligations, because it could ultimately print all the dollars it wants. The same was not true of Mexico or Brazil.

When bankers like Mr Wriston decided suddenly to turn the credit tap from full-on to full-off, they eliminated the incentives and greatly exacerbated the difficulties of debt servicing. Inevitably a sovereign debt crisis ensued, just as it did in the 1930s.

Yet there was one respect in which Mr Wriston was right when he denied in 1982 that massive defaults would cause a world financial crisis. Since August 1982 the world economy has enjoyed one of the longest periods of non-inflationary growth in history. Even as the less developed countries have retrenched and deflated, the creditor nations, particularly America, have prospered and grown. No strictly financial or economic analysis could have predicted the Third World's willingness to make extraordinary economic sacrifices in order to preserve the stability of the Western financial system and the profits of US banks.

Only in the last 12 months have the developing countries themselves woken up to the lessons of history – which show that the balance of power in sovereign lending is tilted heavily in the borrower's, not the creditor's, direction.

In retrospect, the greatest mystery of the Third World debt crisis was not that banks stampeded into such an obvious trap. Rather, it was that the Third World countries took five years to realise that they could seize the initiative and settle the debts on their own terms.

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كتاب أمنه الأصل

THE FIRST 100 YEARS

GLOBALISATION OF MARKETS

From 'Big Ditch' to 'Big Bang'

Dominick J Coyle traces the development of global capital markets

AMERICA'S "Big Ditch" predated London's "Big Bang" of October 1986 by some 170 years, yet each has been a milestone in the process of globalisation in what nowadays we call international financial markets.

In truth, a date closer to the origins of the Financial Times itself was even more significant in the evolution and development of world capital markets; the opening of the Atlantic cable in 1866 greatly facilitated arbitrage between New York and London with transatlantic communications being reduced at a stroke from many days to minutes – albeit at a cost in the first year of service of £20 for a one-word telegram. Globalisation of securities was not a child of the 1980s, but had its infancy well over a century ago.

The abundance of natural resources in the "New World" created the *potential* for virtually unlimited investment (and speculative) capital. But the opening of actual outlets in major volume in the US had to await new techniques and inventions in communications, transportation and industry. A significant early venture capital project of sorts was the "Big Ditch" itself, the celebrated (in its day) building of the Erie Canal financed by the issue of New York state bonds. The greater part of the issue was taken up by British investors, and the 1817 bonds were the first by an American state to be quoted in London. An embryo Eurobond!

The $7m Erie investment paid off handsomely – unlike many others in the US early that century. Annual interest charges were covered almost before the canal project was completed, and the bonds were redeemed at a premium before maturity. British – and also French and Dutch – investors were anxious for more such profitable securities in the new America and away from such established stock of the day as the Bank of England and the East India Company; the emerging states were only too eager to oblige.

Bond salesmen sought to fund projects in Virginia, Pennsylvania and Ohio. A loan to finance the Louisiana Planters' Association was issued publicly by Baring Brothers, the first state loan to be made payable in London at a fixed rate of exchange; Louisiana itself had been purchased from the French some 25 years earlier for $11.25m, funded mainly in London, Paris and Amsterdam, the stock carrying a coupon of 6 per cent.

Throughout much of the 19th century and up to the outbreak of World War One, massive investment flows continued from Europe across the Atlantic. There were, inevitably, market reversals – the collapse of cotton prices, defaults by many US states and the intervention of the Franco-Prussian War – but Europeans had an insatiable appetite for American securities.

Some figures (although not exclusively for the US market): by 1854 Britain was a net creditor country to the extent of some $3bn; by 1895 her net investments abroad amounted to an estimated $9bn; at the end of 1913, gross assets were calculated at $20 bn – much of them in the Americas.

Bonds were the flavour of the century, investments pouring into such romantically-sounding railroads as the Chicago, St Paul and Fond du Lac, the Atlantic and Pacific, the Baltimore and Ohio and the Atchison and Topeka. The discovery of Californian gold pushed the railroads towards and across the Rockies. The states, in the main, left the "winning of the west" to private enterprise, and financial centres in Europe bought and traded securities as eagerly as prospectors sought gold in California.

The internationalisation of securities had taken firm root. Forerunners of today's international investment bankers – shrewd but sometimes dishonest bond salesmen for the railroads and other US utilities – set up shop in London. In addition to rail issues purchased in London, an active secondary market developed in securities originally issued in the US.

By the outbreak of the Great War, and the forced liquidation of a large part of their portfolio, British investors were far and away the largest foreign holders of US securities – followed by the Dutch and the Germans. Only France held off from large-scale investment in the New World. The French Government, controlling access to the Paris Bourse, preferring to direct the savings of its people to areas where France had more direct political and economic interests, including Russia and Turkey.

The placing of – and trading in – those US railroad bonds represented an early globalisation of securities and illustrated how improved communications, coupled with latent investment demand and more than a fair share of promotional hype, could influence international trading in financial instruments.

And the market, too, was widening, with emerging US "blue chip" shares attracting increasing foreign investment: companies like US Steel, Eastman Kodak, General Electric and United Fruit – all international equities in terms of European investor preference, if not then in actual name.

The 1914-18 war changed all that. European, and particularly British, investments were cut back drastically. Instead, investment flows changed direction; large loans were obtained from American banks and investors, and from the US government. At the peak of its wartime borrowing, Britain was a net private debtor to the US, and massively so on government-to-government loans.

Following the war and major reconstruction, some European investment in the US resumed, but by then capital flows were moving out of America. Whereas in the middle period of the previous century American promoters had scoured European financial centres in search of foreign lenders, in the five years prior to the 1929 Crash they were searching the world for foreign borrowers.

A Senate Finance Committee hearing of the period learned that no fewer than 29 representatives of American financial houses were endeavouring to negotiate loans for Colombia; some 36 banks were competing for a loan to Budapest, and another 14 were in negotiation with Belgrade.

The Wall Street crash and the Depression brought all that to an abrupt end. Just as the British had discovered a century before, the Americans faced massive defaults in the 1930s. Almost all of Latin America was in default, and a large slice of Europe, too, including either sovereign or corporate loans to Hungary, Poland, Germany, Greece, Sweden and Denmark.

And again the war clouds were gathering; it was to take another three decades and more before the internationalisation of securities markets would resume – and with a real vengeance, to the point where today vast capital flows are sloshing around the world on a daily basis.

The last decade and more, indeed ever since the dramatic change in oil prices, has seen much greater volatility in interest rates, exchange rates and inflation levels, coupled with the gradual deregulation of financial markets – starting in the US. The flavour of the decade has been the increasing use of capital markets as a means of capital formation and away from reliance on conventional bank lending.

Figures from the Bank for International Settlements (BIS) show net bank lending in international markets peaking in 1981 at $165bn when capital (net) raised through international bonds was a mere $32bn. In the five years to 1986 and the real heyday of the Eurodollar markets, international bond offerings grew at a compound annual rate of almost 40 per cent.

The banks themselves, facing repayment problems by many developing countries, moved to issue long-term securities as a means of strengthening their capital base, and throughout the 1980s have been major players in the growth of international bond markets as issuers, underwriters and dealers.

Deregulation in the American markets started a process of gradual liberalisation worldwide covering exchange controls, market access and financial innovation. Reduced or zero trading commissions started on Wall Street in 1975, moved to Canada (1983) and Australia (1984) and arrived in London with Big Bang. The securities industry responded aggressively in the new competitive environment to meet the needs of both issuers and investors.

The growth of interest rate and currency swaps has become part and parcel of this innovative process, supported more recently by stock index and financial futures and options. Standard options started in the US back in 1973; the Netherlands launched the European Options Market five years later, the same year that a standard options market opened in London.

Other markets around the world have now joined in, or are racing to catch up – just when the world equity markets have collapsed and, in truth, when no-one is quite sure of the implications for the global securities industry. But internationalisation has come a long way, dramatically so in the present decade, and the process is too well-established – and too suited to sovereign and corporate needs – to be reversed.

There may well be setbacks, and also particular flavours in response to market circumstances, as there always have been. Floating Rate Notes (FRNs), a substitute for the syndicated bank loans of yore, had their run in the early 1980s; by 1986, they had given way to more reliance on fixed rate Eurobonds as interest rates declined sharply. The short-term Euronotes market, too, had its innings, and reached record volumes in 1985 when the market in Eurocommercial paper came into vogue. Last year – even before the October crash – Eurobond volumes had started to turn down.

Whatever the needs of the marketplace, financial engineers have been on hand with increasingly complex placing and trading instruments and processes, the lead inevitably coming from the big Wall Street houses. Seemingly ever-rising stock market prices around the world – until October's Black Monday – widened the vision of mutual funds, investment trusts and pension fund managers and consolidated the cult of the international equity.

The yen and the Japanese market have soared to dizzy heights, replacing New York as the world leader in terms of capitalisation, a status (the declining dollar aside) perhaps not wholly fair to Wall Street, given the high volume of retirements of corporate stock. Net new corporate stock issues in the US have been negative in five of the last seven years.

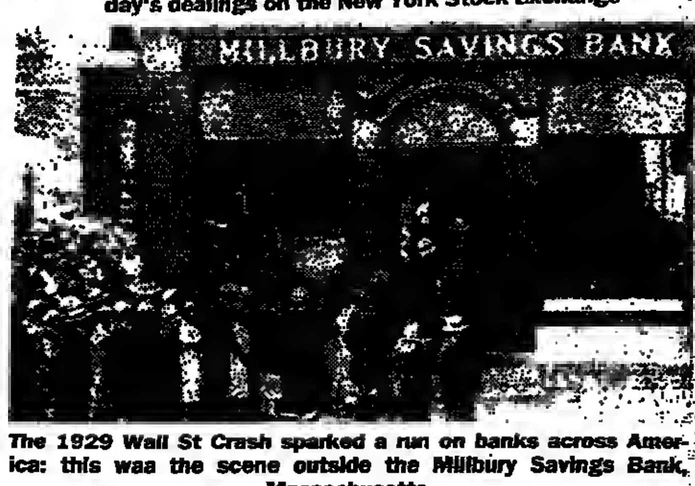
And where from here? The shock waves from last October's fall-out continue to reverberate around the investment world as the FT reaches its first century. The pace of internationalisation in the securities markets has been dramatic in recent years, even if the very process itself has not been new. Our own century and more has seen major reversals in capital flows, and the playing field has seldom if ever been level, nor indeed has the global investor always been adequately protected. A global regulatory framework may need a higher priority in the years immediately ahead.

FINANCE

1888 FINANCIAL TIMES 1988 CENTENARY YEAR

New technology has helped financial markets to become more international and more innovative in recent years. It is a process, however, which started a long time ago

Black Monday October 19,1987: a trader at the end of the day's dealings on the New York Stock Exchange



The 1929 Wall St Crash sparked a run on banks across America: this was the scene outside the Millbury Savings Bank, Massachusetts

The first transatlantic cable being prepared for shipment at Morden Wharf, Greenwich in 1857

Net new borrowings in international markets

(US $ Billions)

Year	Net Bank Lending (1)	Net Bond Issues (2)	Minus: Double Counting (3)	Net Bank and Bond Financing
1978	$ 90.0	$ 29.0	$ 6.0	$ 113.0
1979	125.0	28.5	7.5	146.0
1980	160.0	28.0	8.0	180.0
1981	165.0	32.0	7.0	190.0
1982	95.0	58.5	8.5	145.0
1983	85.0	58.0	13.0	130.0
1984	90.0	83.0	28.0	145.0
1985	105.0	125.0	55.0	175.0
1986	160.0	156.0	76.0	240.0
1987	135.0	70.0	25.0	180.0

Notes: (1) Excludes double-counting due to redeposits among reporting banks; (2) net of redemptions and repurchases. (3) certain bonds taken up by BIS reporting banks and bonds issued by reporting banks to facilitate their international lending activities.

Sources: BIS Annual Reports

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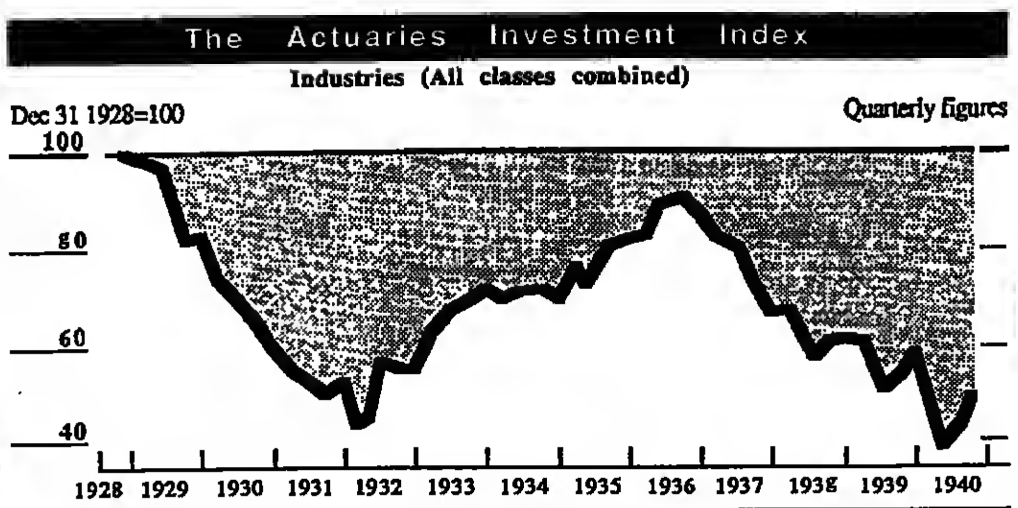
MARKET CYCLES

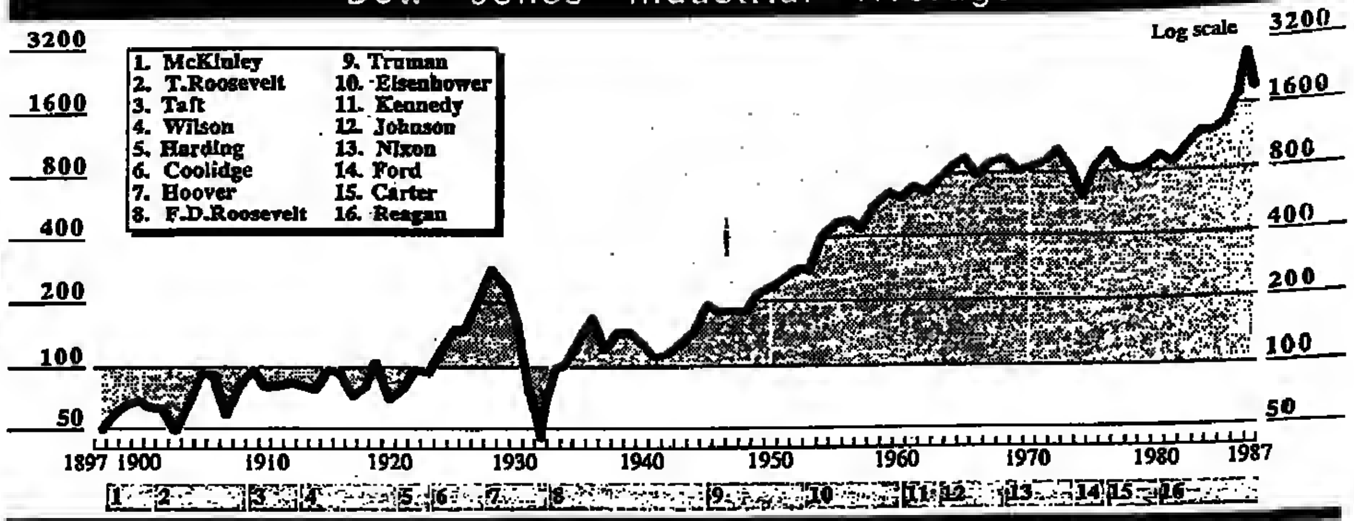
A pattern of fluctuation

What goes up usually comes most of the way back down, **Barry Riley** observes

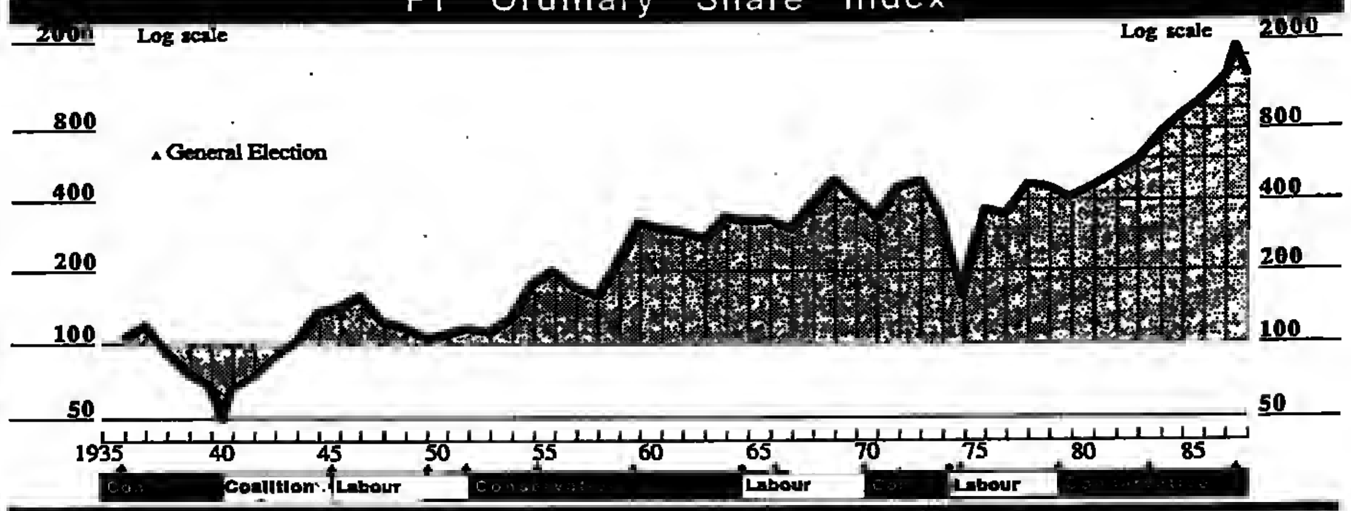
The Actuaries Investment Index



Dow Jones Industrial Average



FT Ordinary Share Index



FINANCIAL NEWSPAPERS are usually launched by proprietors in prosperous times, and it is therefore unsurprising to find that 1888 was not at all a bad year for the City of London's markets.

There was something of boom in flotations of British joint stock companies. Moreover, many overseas investment propositions were dangled before British investors, including issues by a wide variety of gold mines.

The alarming US balance of payments deficit of $63m that year reflected a surge in imports from, among other places, Britain. It was an early application of the US locomotive strategy to a sluggish world economy. Indeed, it was accompanied by an unprecedented flood of stock and bond issues by American railroads.

Meanwhile, interest rates were falling and one of the first major economic events which the fledgling FT reported was Chancellor Goschen's conversion of the national debt in March that year.

Investors were offered a distinctly unappetising deal: they had to take a cut in the interest rate on Consols from 3 to 2¾ per cent (falling to 2½ per cent eventually) or be paid off at par. Meanwhile, the best railway debentures yielded only 3¼ per cent.

But if there is one lesson to be drawn from a century of market movements it is that what goes up is likely to come most, if not all, of the way down again. The FT's first bear market could not be far off.

So it proved. The capital markets became overheated, and interest rates soared throughout Europe. The discount rate in Britain hit an alarming 6 per cent at the end of 1888, while Germany suffered a crunch in 1889.

But as far as the City of London was concerned the real problems turned out to be developing in Argentina where a wave of land speculation in the region of the River Plate during the late 1880s ended in tears.

German investors withdrew support for Argentina in 1888, but the plucky British merchant bank Baring Bros hung in there, despite the damaging failure of a sizeable loan offering for the Buenos Ayres Drainage and Waterworks Co.

It was not a wise policy. Mounting rumours undermined the London stock market through 1890. Then, on November 15, Baring closed its doors, and had to be bailed out of a liquidity crunch by the Bank of England.

This was a panic largely confined to Britain. But in 1893 the US had its own crisis when confidence was damaged by the threat to gold convertibility. The seeds of the collapse had been sown by the Sherman Silver Act of 1890.

The 1893 panic was just too soon to be recorded statistically by the Dow Jones Industrial Average, although Charles Dow back in 1884 had created an average of railroad stocks (at that time the subject of the vast majority of stock trading in New York).

His Wall Street Journal had in fact appeared for the first time under that title in July 1889, and by May 1896 trading in non-railroad stocka was active enough for him to launch the DJIA, covering just a dozen issues to start with.

The London market unfortunately lacks any corresponding continuously calculated daily statistical measure dating back anything like 100 years. But there was a monthly London and Cambridge Economics Service industrial index going back to before 1900, and at the end of 1928 the monthly Actuaries Index was started (it continued until 1962, when it was superseded by the FT-Actuaries Index series).

In July 1935, however, the Financial News (later FT) Industrial Ordinary Share Index was launched, and this has given a consistent daily record for at any rate the past 52 years.

Karl Marx had predicted steadily worsening crises for capitalism, and the panics of the early 1890s lent credence to this view, but they proved to be false alarms.

Capitalism was in reality swinging into one of its most prosperous and progressive periods. In Kondratieff terms, the late 1890s marked the start of a new major cycle, with the commencement of a long upwave punctuated by the First World War but eventually terminated only by the crash of 1929.

Of course, it was not quite as simple as that. The Dow Jones chart records bear markets in 1903 and 1907 - the latter reflecting the "Knickerbocker" crisis after the failure of the Knickerbocker Trust Co, the effects of which were largely confined to the US.

In Europe, meanwhile, war was brewing. When it broke out in August 1914 the London Stock Exchange closed for five months, and thereafter trading was subject to controls and to the pressures to finance the war effort through bond issues, including several tranches of War Loan.

As a major centre for international finance, London suffered a serious loss of business during the war, but the immediate post-Armistice mood was buoyant. The shortages and pent-up demand generated by four years of hostilities created plenty of highly-profitable opportunities for industrial entrepreneurs.

There was a new issue boom in the UK in 1919 and 1920 covering coal mines, steel, textiles and the rapidly expanding motor industry.

The euphoria proved short-lived, however. By 1921 the world economy was in trouble again, with Germany and several other central European countries suffering hyperinflation. In the US, the Dow Jones Industrial Average hit what was then its all-time high of almost 120 in November 1919 but lost nearly 50 per cent over the ensuing two years.

In the UK the average annual level of the equity market, according to the London and Cambridge index, fell by a third between 1920 and 1921 (to a level little higher than in 1900).

In general, however, the Twenties roared. By 1924 the markets were picking up nicely, and, despite ominous signs of distress in commodities (where over-production stimulated by the war was leading to a serious decline in agricultural prices), the industrial economies were moving ahead fast.

Despite temporary crises, such as the UK's General Strike in 1926, stock markets were buoyant and the climate became increasingly speculative. Share pushing reached scandalous levels in the UK, while in the US buying of equities was becoming financed by credit to an alarming degree.

The actuarial profession chose December 31, 1928 as the base date for the new Actuaries Index. It was an unfortunate time to start an index at 100. As Kondratieff might have warned, the index would never get back to its starting point until the 1950s.

London's problem in 1929 was the Hatry crash. Clarence Hatry had been a prominent wheeler and dealer for some years, and in April 1929 he made a highly ambitious cash offer for United Steel as a step towards forming a giant new combine to be called Steel Industries of Great Britain.

But Hatry ran out of cash and by June, becoming desperate, he began forging bogus share certificates. On September 20 his crime was exposed; he was arrested, and share prices in London began to tumble.

The ripples of the Hatry crash apreading across the Atlantic can only have served to intensify the pressures on an overstretched Wall Street. From a low of about 90 back in 1924, the DJIA had risen almost continuously to hit a high of 381 at the beginning of September 1929.

There followed a few weeks of nervousness, alarm and then outright panic, culminating in the devastating fall of Tuesday, October 29.

Wall Street's crash has ever since remained the most notorious event in stock market history (though it has since been rivalled by October 19, 1987). But the crash itself was only one of a series of events which resulted from political and monetary ineptness and which generated the disastrous depression of the early 1930s.

In London the stock market was weak during late 1929, but the fall in the Actuaries Index for the year was a relatively modest 18.9 per cent.

Much worse was to follow. The US Smoot-Hawley Tariff of 1930 crippled international trade, and a chain reaction of confidence crises was triggered in the foreign exchange markets by the collapse of the Austrian Credit-Anstalt in May 1931.

The UK was forced off the gold standard in September 1931, causing further stock market weakness, and it was not until June 14, 1932, that the Actuaries Index finally bottomed out at 44.8.

The Dow Jones Average reached its trough at about the same time; with its low point only 41, the proportionate damage, compared with earlier levels, had been vastly greater (though it quickly doubled again in 1933).

Persistent high unemployment cast a deep shadow over the 1930s, but the UK economy suffered less than many others. By 1934 UK industrial production had recovered to the 1929 level, whereas it took until 1936 in Germany and 1937 in the US.

So there was quite a decent mid-Thirties uptrend in the London stock market, the last 18-month period of which was picked up by the FT Index. From a base of 100 in July 1935 the Index attained a peak of just over 120 at the turn of 1936 and 1937.

But the economic upturn was faltering and the war scare increasing. The Index was down through 100 by the end of 1937, was at 77 when war was declared in September 1939, and hit its all-time low point of 49.4 on June 26 1940 in the wake of the British Army's evacuation from Dunkirk and the blitzing of Britain's cities.

The wartime and immediate post-war UK economy was dominated by controls, including price and dividend restrictions, and the equity market became a backwater. But the late 1940s were notable as the era of cheap money under Labour's Chancellor Hugh Dalton, and gilt-edged prices reached exceptional levels: 2½ per cent Consols touched par in 1946.

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THE FIRST 100 YEARS

INTERNATIONAL CAPITAL FLOWS

Price of turbulence

New regulatory measures could be on the way, says John Plender

THE internationalisation of financial markets is anything but a post-war phenomenon. Medieval English kings turned to Italian bankers to finance their wars; in the 16th century Gresham looked to Antwerp to provide Elizabeth I with funds; even Boulton & Watt, pioneer of the British industrial revolution, turned to a Dutch bank, Hope & Co, when it had exhausted the savings of its founders.

Looked at from a historical perspective, there appears to be a natural ebb and flow in the propensity of finance to move across national borders, in which the turn of the tide usually coincides with foreign borrowers going into default. Growth in international capital and financial flows then resumes when the memory of the resulting losses becomes fainter – or, in the past century, as the controls introduced in response to financial turmoil are lifted to cope with new political and economic circumstances.

In economic terms, internationalisation makes obvious sense where countries with savings surplus to domestic requirements direct funds to developing economies in which investment returns are higher and savings are in short supply. Yet, in practice, the pattern of international flows in the period since the Second World War has been heavily influenced by numerous other factors, ranging from the political to – most importantly – relative levels of financial regulation. And internationalisation in securities markets has reached a wholly new degree of sophistication thanks to dramatic advances in computing and telecommunications, which have simultaneously permitted the rapid dissemination of financial information and the reduction of financial transaction costs by up to 90 per cent.

Both political and regulatory considerations played a crucial part in the key international development in the post-war financial system: the appearance of the Eurodollar market. The Soviet Union had, in the late 1950s, a strong desire to hold dollars in non-American banks outside the US. At the same time the financial community saw an opportunity to exploit an anomaly in the US financial structure: the Federal Reserve System's regulatory ceilings on bank deposit interest rates did not apply to deposits in New York belonging to foreign banks or to foreign branches of New York banks. So it was possible to enhance the return on dollar deposits by transferring funds from New York to Europe without incurring any exchange risk.

The Bank of England, meantime, conducted an open-door policy in relation to foreign banks and, without objection from the British government, offered a minimally regulated environment for non-sterling financial activity. Against this background, a mainly London-based Eurocurrency market was destined to thrive.

The development of the Eurobond market, which quickly followed, was once again heavily influenced by regulatory considerations. By issuing dollar bonds in Europe a borrower could escape the demanding requirements of the US Securities and Exchange Commission, while avoiding the fiscal penalty imposed on non-US investors by the US interest equalisation tax in the period between 1963 and 1973.

A similar pattern is discernible in the growth of international bank lending in the early 1970s. Restrictions on inter-state banking in the US imposed constraints on the domestic expansion of the big US money centre banks. Yet the existence of the Eurodollar deposit market allowed them to engage in rapid asset-led growth overseas. In the period of petrodollar recycling that followed the 1973 oil crisis, some of the biggest US banking giants came to generate up to three quarters of their profits from foreign activities. Western governments tacitly acquiesced in an increasingly imprudent bankerly foray into the Third World because recycling deferred painful policy responses to a four-fold hike in oil prices.

In the 1980s the pattern of capital flows switched from the developing world to the developed world; and the lifting of Japanese controls on capital outflows coincided with the growth of a US budget deficit that outstripped the capacity of American domestic savers to finance it. Without explicit political agreement, Japanese institutional investors looked for higher returns in US securities markets.

The unhappy outcome of the petrodollar recycling episode, in which the banks were ultimately forced to make substantial provisions and write-offs against sovereign loans to Latin America, falls into a pattern that is familiar to economic historians. The dramatic collapse in the value of Japanese investors' dollar securities in 1986 and 1987, in contrast, raises more complex issues; not least because the US, as custodian of the world's chief reserve currency, was able to impose a de facto default on its Japanese creditors through the halving of the value of the dollar against the yen between Spring 1985 and the end of 1987.

Unlike the British devaluation of 1967, which had severe implications for the sterling balances, the dollar's slide took place within a floating system. In effect, the market was obliged to take the strain when US, Japanese and other developed countries' economic policies proved incompatible and international economic diplomacy faltered. The West's leading military and economic power was unable to live with the political consequences of economic and financial integration.

The extreme turbulence in both currency and stock markets in 1987 has been widely seen as a symptom of the decline of US economic power and the problem of shifting some responsibility for global economic management to Japan and West Germany. It has also created a climate in which a move back towards re-regulation in currency and capital markets might seem natural. Yet there is little agreement between the main global actors on the desirability or otherwise of a return to managed exchange rates; or, indeed, on how a smooth transition from dollar hegemony to a full-scale multi-currency reserve system might be accomplished.

The American political response to the stock market crash of 1987 may well lead to regulatory measures that indirectly impinge on international capital flows. But as the debt crisis continues to cast a shadow over the dog-end of the decade, it seems unlikely that the internationalisation of the markets will lead to anything remotely like the optimal allocation of capital looked for by economic theory for a long time yet.

THE FT'S INDICES

Barometers of market conditions

Richard Lambert on the 30, the 100 and, now, the 2,500

"WE DECIDED that the best contribution we could make was to produce a truly modern and sensitive industrial ordinary share index, sensitive to the equity market's changing moods as reflected in price movements in the leading and most active shares in manufacturing industry."

With this rather modest objective, the Financial News just over 50 years ago started a process which today involves the calculation and daily publication in the Financial Times of roughly 100 different stock market indices. There are two main objectives behind these calculations.

The first is to provide a service to readers. Together with its partners, the FT now produces a more sophisticated and widely accepted set of market measures than are available anywhere else in the world. In Wall Street and other major capital markets, a proliferation of equity and bond indices competes for the attention of investors. In London, there is the FT series. Most of its rivals have quietly been abandoned.

The second main objective is to bring the FT's name before a wider audience. For decades, the FT Ordinary Share Index has been the standard barometer of weather conditions in the City of London, and the yardstick by which its changing moods have been measured on news bulletins around the world. On a more ambitious scale, the hope is that the World Share Indices, launched last year, will become the benchmark for international equity investors.

The original FT index was the brainchild of Sir Richard "Otto" Clarke, who worked for six years as a leader writer and Lex columnist on the Financial News before going on to a distinguished career in government service. In an article "By our statistical correspondent" in July 1935, he argued that the disadvantage of the established indices was that they contained too much dead weight – shares which were infrequently traded, and which therefore meant that the indices were not sufficiently sensitive to market movements.

An index of 30 shares, if carefully chosen, would give both a sensitive and representative picture, he suggested. "The value of the index (as a picture of the market) increases only very slowly after that number has been reached."

Jobbers and brokers outside the Stock Exchange in 1951

The list of original constituents provides a roll call of the great names of British manufacturing before the Second War. It features the likes of Bolsover Colliery, Austin Motor and United Steel along with shares which remain actively traded today, such as ICI, GEC and GKN.

Over the years, the emphasis has shifted – in line with the economy – away from heavy industry and towards the services sector. Companies have been taken out as a result of their own decline, or of takeover, and to make room for more dynamic or market-sensitive shares. In particular, British Telecom and British Gas were brought in immediately after privatisation.

The Index was not designed to provide a long-term measure of portfolio performance. That gap was filled in 1962 with the introduction of the FT-Actuaries series of indices, which captures a much higher proportion of the overall equity market and is built on a weighted arithmetical framework designed to behave like an actual portfolio of shares. The FT carries out the day-to-day collection of prices and the calculations, while the Institute of Actuaries and the Faculty of Actuaries are responsible for the design and supervision of the series, and for changing the make-up of the indices to reflect market developments.

Indices for British government securities were introduced in 1977, backdated to 1975.

These indices have become the standard by which the performance of fund managers investing in UK securities is judged. Their acceptance is such that it is common for stockbrokers to make their share recommendations in terms of being "overweight" or "underweight" in a particular sector. What they mean is that investors should hold more, or less, of a particular security than would be the case if they merely matched the make-up of the All-Share Index.

The next big innovation was the FT-SE 100, which came in at the beginning of 1984 to provide the first real time index of UK security prices. Here, the stock prices are collected by the Stock Exchange and calculated on its computers.

This index is made up of the 100 largest companies by market capitalisation, adjusted on a quarterly basis to allow for market movements. It is constructed in the same way as the FT-Actuaries series. Among professional investors, Footsie has been taking the place of the 30 Share Index as the main indicator of short-term movements.

The most ambitious and complicated of the indices published each day in the FT are the FT-Actuaries World Indices, which appeared for the first time last year. The World Index itself is made up of nearly 2,500 shares, and the daily table includes data on 24 separate countries and 10 regions. Details of price and capital movements are collected by three partners: broadly speaking, Goldman Sachs is responsible for the Americas, the FT for Europe, and Wood Mackenzie for the rest of the world. The indices are calculated by the FT after the close of the New York Stock Exchange each night, and are available for the later editions of the newspaper.

There are competing indices calculated by other organisations – mainly by securities firms. But the FT claims several features for its series, including speedy publication and a set of ground rules which make the indices relevant to an international investor. Most important is the fact that the supervision and structure of the indices is managed independently by a group led by a representative of the Actuaries and including outside users of the service.

Even more sophisticated market indices are likely to be developed in the years ahead. Accurate, widely-accepted measures of portfolio performance are still needed in several investment areas, notably on the bonds side. And there will be a growing need for investment products tied to market indices to help fund managers cope with the varying risk elements in their portfolios.

ORIGINAL CONSTITUENTS OF THE FT INDEX
Associated Portland Cement
Austin Motor
Bass
Bolsover Colliery
Callenders Cables
Coats (J&P)
Courtaulds
Distillers
Dorman Long
Dunlop Rubber
Electrical & Musical Inds
Fine Spinners and Doublers
General Electric
Guest Keen & Nettlefolds
Harrods
Hawker Siddeley
Imperial Chemical
Imperial Tobacco
International Tea
London Brick
Murex
Patons & Baldwins
Pinchin Johnson
Rolls-Royce
Tate & Lyle
Turner & Newall
United Steel
Vickers
Watney Combe & Reid
Woolworth (F.W.)

PRESENT CONSTITUENTS
Allied-Lyons
Assoc Dairies
BICC
BOC Intl
BTR
Beecham
Blue Circle
Boots
British Gas
BP
British Telecom
Cadbury Schweppes
Courtaulds
GEC
Glaxo
Grand Met
Guest Keen
Guinness
Hanson
Hawker Siddeley
ICI
Lucas
Marks & Spencer
Nat West
P&O
Plessey
Royal Ins
Tate & Lyle
Thorn EMI
Trusthouse Forte

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It was the unwinding of this cheap money policy by R.A. (Rab) Butler after the Conservative election victory in 1951 which was partly responsible for a nasty little bear market in late 1951 and early 1952. Bank Rate was raised sharply from 2½ to 4 per cent and long gilt-edged yields went up to 4.8 per cent.

The other factor was the commodity price slump which followed the ending of the Korean War. From a 1951 peak of above 140 the FT 30 Share Index collapsed to 103.1 on June 24,1952. But it was the last time it was to languish at a level anywhere near par.

From that point the stock market embarked upon the post-war series of four-yearly cycles embedded within a strong underlying uptrend. Successively greater peaks were reached in 1955, 1959, 1964, 1968 and 1972 (although in real terms 1968 was in fact the high point rather than 1972).

In between came minor bear markets, usually related to balance of payments crises and abrupt interest rate hikes. But these market setbacks, marked by events such as the Rolls-Royce collapse of early 1971, were nothing like as severe as the subsequent bear market of 1974 or the crash of 1987.

To refer once more to the theories of Kondratieff, the world economy was again in the strong uptrend characteristic of the first half of a long cycle (though the UK economy was always struggling to keep up with its major competitors).

The 1950s and 1960s saw the development of the "cult of the equity" in the UK as institutional investors greatly increased their exposure to ordinary shares. Inflation, albeit at low levels, became a persistent feature of the British economy, and bond prices were in a secular decline as their vulnerability to inflation became evident.

Gradually it became the accepted wisdom for pension funds, in particular, to buy equities. Eventually the popular view developed that inflation was actually good for equities.

In the early 1970s, however, this philosophy was tested to destruction. The Conservative Government under Edward Heath, elected in 1970, began as a financially strict regime but before long negotiated a spectacular U-turn and embarked on a headlong monetary expansion combined with an increasingly lax fiscal policy.

Wage, price and dividend controls could only keep the cap on the bottle for a while. The strategy collided violently with enormous rises in the world oil price and with a coal mining strike. Workers managed to defend their standard of living, but only by imposing a vicious squeeze on real corporate profits, which were further damaged by price controls.

Meanwhile, the secondary banking and property markets, which had boomed during the monetary explosion, abruptly disintegrated.

It was a financial squeeze rather than an economic collapse. But the effect on the UK equity market was much worse than that of the 1929 crash. From its peak of 543.6 in 1972 the FT Index fell all the way to 146.0 in the first week of January 1975, the final downward lurch being prompted by the New Year's Eve failure of Burmah Oil. In real terms UK equities fell by 80 per cent from peak to trough.

Wall Street was also badly hit by the oil crisis, but the US had not suffered the same collapse of financial discipline. The Dow Jones Average's fall between 1972 and 1974 was a more modest 45 per cent, and the US market turned round a few months earlier than London.

In the end Chancellor Healey offered British industry tax relief at the cost of aggravating an already horrific Budget deficit. In January 1975 the equity market rocketed, and prices had doubled by the end of February. But with inflation running at an annual 25 per cent, share prices in real terms were still a very long way below what they had been a few years earlier.

The problems were not over. In 1976 the London stock market suffered a short but sharp V-shaped collapse as a result of soaring interest rates and a currency crisis. The climax was the famous return by Denis Healey from a Heathrow VIP departure lounge to call in the IMF and put together an emergency package of cuts. The medicine was highly effective.

After the extreme gyrations of the mid-1970s the behaviour of the UK equity market changed remarkably in the ten years from 1977. Just as the underlying economy almost ignored the 1974 stock market collapse, so equity prices turned almost a blind eye to the agonies of UK manufacturers in 1981.

The regular cyclical behaviour all but disappeared as the market entered a long-term trend channel. And a Kondratieff-style crash predicted by some for 1984 notably failed to materialise.

Maybe the Government's policy of smoothing out monetary growth had something to do with the stability of the stock market.

But it is natural for markets to fluctuate. The past 100 years have amply demonstrated that. The particular lesson of the 1980s may be that the longer a period of stability endures the worse is likely to be the chaos when the precarious balance between buyers and sellers is finally undermined.

SECURITIES

A premium on protection

Regulation has been aimed at increasing accountablity, says **Clive Wolman**

THERE HAVE BEEN three critical periods in the regulation of the Stock Exchanges and the securities industry on both sides of the Atlantic in the last 100 years.

The first was in the years leading up to the First World War, which formed part of a more general trend in the British and world economy away from free trade and economic liberalism, towards cartels and protectionism, with ultimately disastrous consequences.

The second period was in the mid-1930s following the market crash and Great Depression. The most recent pariod of reform has been in response to the general deregulation of financial services and the emergence of global competition and markets over the last 14 years.

The new regulatory structure and the abolition of minimum commissions as part of the Big Bang reforms of October 1986, represents the culmination of a process which has continued throughout the last two or three centuries.

That has been to force the Stock Exchange into a position of much greater public accountability and to accept primary responsibility for protecting the interests of investors and companies using the market rather than the interests of its own members.

The trend can be traced back as far as the aftermath of the South Sea Bubble, which led to the first legislative curbs with John Barnard's Act of 1734. Self-regulation was, in part, aimed at meeting criticisms from Parliament and publicists, leading to the formation of e Stock Exchange in the 1770s.

Shortly before the Financial Times was founded, in 1878, the Stock Exchange had warded off the threat of government reguletion, which had been posed by a Royal Commission investigation.

It approved the principle of e quasi-monopolistic central market, based on trust and the jobbing system, and decided that there was no way of distinguishing between genulne investors and speculators. The Exchange was able to shrug off criticisms of the way in which it vetted and approved new issues, and the recommendation that it be incorporated by Royal Charter or Act of Parliament.

The Exchange veered between toughness and excessive tenderness in disciplining its members. In one case, the entire committee for general purposes was forced to resign following public criticism of its failure to do any more than censure a broker who sold his clients shares at e price well below the market price, pocketing the difference himself.

Another malpractice case, which revealed the determination of the Exchange to preeerve self-regulation, arose from moves by a broking firm to promote the newly-issued shares of the Steam Loop company. It had purchased them at an artificial premium to make investors think that there was a genuine after-market.

Today something close to this practice is widespread in the Euromarkets, and has been partially sanctioned by the 1986 Financial Services Act. But in 1892, the three leading perpetrators were suspended from the Exchange.

The chief culprit was suspended for only three years, whereas the two lesser characters received four-year sentences because they dared to take out High Court injunctions against the Stock Exchange Committee.

During this period, from 1888 to 1914, the Exchange began to act more and more as a trade association and cartel concerned primarily to preserve the status quo and the interests of its existing members from outside competition, rather than to protect the investing community. When a stockbroking firm became insolvent, the Exchange consistently ensured that its other member firms got paid out of the remaining assets ahead of the investing clients.

Although the protection of member firms' self-interest on the London Stock Exchange was never as venal as it became in New York in the period leading up to the First World War, some of the long-term consequences on London as an international financial centre were just as severe, if not more so.

The two main reforms were the banning in 1909 of dual capacity - by which brokers could also act as jobbers (market-makers) - and the imposition in 1912 of a minimum commissions scale. The reforms were defended as e way of protecting the investor by segregating the different functions of agency broking and market-making, to ensure that a broker always dealt on tha most favourable terms for a client.

The minimum commissions cartel was designed to remove at least some of the economic pressures to combine the functions covertly.

The restrictions continued to be justified in these terms 70 years later in the Stock Exchange's preparation of its case against the Office of Fair Trading in the Restrictive Practices Court between 1976 and 1983.

The new structure and abolition of minimum commissions as part of the Big Bang reforms of October 1986 represents the culmination of a process which has continued throughout the last two or three centuries

Bnt most historians of the period take e much bleaker view of both the motives and the consequences of these moves.

According to Mr. R. C. Michie, of the University of Durham in *The London nnd New York Stock Exchanges 1850-1914*, the primary motive was to deny provincial brokers direct access to the London jobbers to the benefit of the London brokers.

Dr David Kynaston, in a doctoral thesis, also criticises the gaining a listing. Not only were companias charged excessive fees, he concludes, but both they and investors were given inadequate protection against unscrupulous company promoters.

Mr Michie concludes that the services offered to companies restrictions undermined the integrated and efficiently functioning national securities market in Britain. When combined with the restrictions preventing member firms from raising outside capital or becoming members of other exchanges, these reforms handicapped London's development as a national and international securities market, he says.

By contrast, New York, although it had imposed a minimum commissions scale and other restrictions for much longar than London, at least allowed the development of large, nationwide, diversified broking firms.

The reforms of the 1980s, imposed on the Stock Exchange by a Conservative government, reversed the pre-First World War reforms and revived some of the regulatory issues of the early years of the century. It also opened np the London securities market for the first time ever to international banking capital.

At the same time, a new system of investor protection is being introdnced, modelled loosely on the system introduced in the US in the 1930s in response to the Wall Street crash.

In effect, the system of investor protection through the segregation of functions is being replaced by a more flexible approach based on fuller disclosure and e greater government involvement, through the imposition of minimum standards. The London Stock Exchange (now called the International Stock Exchange) has opposed the new regulatory system almost as vehemently as the New York Stock Exchange did in 1933, but with rather less success.

The New York Stock Exchange forced the newly-elected administration of Franklin Roosevelt and the houses of Congress to abandon or dilute several key provisions of the 1933 Securities Act and the 1934 Securities Exchange Act. The emergence of the Securities and Exchange Commission, as a separate regulatory agency, in the 1934 Act was hailed as a victory by the New York Stock Exchange, even though it was the first serious attempt to regulate the US securities industry.

Over the subsequent years, the SEC established its predominance over the Exchange as the chief regulator of the securities industry partly as e result of the political and public relations skills of its first chairman, the colourful Joe Kennedy.

But the main cause of its growing dominance was the undermining of the Exchange's authority by further scandals, culminating in the arrest in 1938 of its long-standing president, Mr Richard Whitney, for stealing securities.

The London Stock Exchange by contrast avoided any government moves to subject it to tighter regulation during the 1930s, despite the etigma attachad to stock merket investment and a bout of scandals. The only legislative initiative, the Prevention of Frand (Investments) Act of 1939 strengthened the position of the Stock Exchange by ontlawing the activitias of unlicensed atockbrokers who were not members of a recognised body like the Exchange.

Similarly, the Exchange appeared to win the basic principle of preserving e system of self-regulation, in the first stages of a comprehensive review of investor protection which was started - again in response to e series of scandals in 1981.

But its traditional autonomy has been eroded step by step as the datails of the legislation were hammered out in Parliament and by the drafters of the rule book of the Securities and Investments Board, the designated self-regulatory overseer. In particular, the Exchange is being stripped of its regulatory powers over its member firms and the conduct of their business with investors.

These have been transferred to a newly-formed self-regulating organisation, the Securities Association, leaving the Exchange with responsibility only for supervising the smooth functioning of the market.

The convergence of the regulatory systems of the US and UK, together with a eimilar convergence of market structures and overlapping memberships Is facilitating what will undoubtedly be the regulatory issue of the next decade, the coordination and harmonisation of international securities regulation.

The driving force is the growing international character of securities fraud. Cross-border transactions and internetionally footloose financiers heve all played crucial roles in the largest securities scandals over the last two years. These have been the "boiler-room" share-pushing operations in Amsterdam, the Levine and Boesky insider dealing charges in the US, and the Guinness ehare price manipulation dnring a takeover battle in the UK.

Harmonisation is also being helped by the fact that nearly all the countries with large and active etock markets elther ahare the common law heritage of the former British Empire or, in the case of Jepan, heve adopted the securities legislation of a common law country.

PROFILE: J.P.MORGAN

Power player

Richard Lambert on an investment mogul

J.P. MORGAN was already a man of considerable influence when the Financial Times was first published. On his 50th birthday a year earlier, in April 1887, his personal investments were estimated at around $25m – and his financial assets were dwarfed by his financial power.

Directly or indirectly, he controlled more capital investment in reilweys, telegraphy and Edison franchises than any of his rivals. And in the remaining 25 years of his career he was to develop a degree of personal power that has been unmatched by any other financier in the past 100 years.

At the height of his career, he became a symbol of US capitalism at a time when America was rapidly developing into one of the world's most powerful nations. He and his partners held 72 directorships in 112 of America's largest financial, transport, industrial and public utility companies. The firm's public security offerings for interstate corporations alone totalled nearly $2bn in the decade to 1912.

J.P. Morgan: connections

His close connections with First Netional end Netional City banks added still more strength to his unique position in US finance.

This was derived from several sonrces. Luck pleyed e part. Morgan inherited a position in an important private banking house with strong connections in Europe – especially in London – at a time when the pace of America's rapid economic development was being set in large measure by European capital. Access to European investors was the key element in many of Morgan's most important financings.

Next came his own integrity and leadership. In a period when Wall Street was a hunting ground for sharks and confidence tricksters, Morgan always made it clear thet he was interested in "doing only first-class business in e first-class way."

Theodore Roosevelt, who disagreed with much that Morgan stood for, was still able to observe: "When he made a promise, he kept it; and untruthfulness and any kind of meanness or smallness were alike wholly alien to his character."

His working hours were not excessive: he liked to take a nap at lunchtime, and to leave the office promptly at 3 o'clock. But he had the ability to pick the essential points out of complicated financial problems, to think on his feet, and to spot long-term business opportunities.

All these qualities were vividly demonstrated in the gold crisis of 1895. Gold had been flooding out of the US throughout the decade, to the point where the Treasury's ability to continue gold payments – and the nation's credit-worthiness – were both in dire jeopardy.

President Grover Cleveland was reluctant to take decisive action, because he feared that a public appeal for gold would finally unnerve the business community and because of the political controversy that was sure to follow a deal with the Wall Street bankers.

Not until there was only $9m of coin left – and a $10m draft still waiting to be paid – did the President finally turn to Morgan. Could there be any guarantee, Cleveland asked, that gold would not continue to be shipped abroad in the event of a deal being signed?

"Yes, sir," Morgan replied, without consulting any of his fellow syndicate members. "I will guarantee it during the life of the syndicate, and that means until the contract has been concluded and the goal has been reached."

This was an enormous commitment, involving heavy intervention in both the foreign exchange and international gold markets. But the bonds issued by the syndicate to back the transaction were heavily oversubscribed both in London and New York, and the outflow of gold stopped even before the deal closed.

Morgan was an unattractive man. He was cursed with an extraordinary nose, a great red bulbous affair; he was arrogant; he appeared to be both unaffected and unmoved by the social and economic reforms of his times. He spent lavishly on his comforts, travelling by private railroad car on land, and in a series of luxurious private yachts by sea.

His final years were overshadowed by public exposure. Suspicion of the moneyed interests had been a feature of American life from the earliest days of the republic, and a great wave of hostility came to a head in the "money trust" hearings before the House of Representatives in 1912. Morgan was the star witness, and his testimony was revealing.

He freely admitted and defended a number of apparently restrictive practices. Thus he insisted that competitive bidding for loans was in no one's interest, since it deprived both the issuer and the investor of "moral responsibility" for the deal.

His banking judgments were suitably patrician.

Questioner: "Is not commercial credit based primarily upon money or property?"

Morgan: "No, sir: the first thing is character."

Questioner: "Before money or property?"

Morgan: "Before money or anything else. Money cannot buy it ... A man I do not trust could not get money from me on all the bonds in Christendom."

Morgan died in Rome in 1913, his energy drained – according to some of his friends – by his ordeal in Washington a year earlier. Given the scale of his influence, his estate was not immense by the standards of e Rockefeller: it was worth about $68m, excluding his art works. He was the last of his kind: Washington, and the changing structure of the international financial system, would see to that. Every major banking and securities Bill debated in Congress through to the end of the Second World War – and much of America's anti-trust legislation besides – was written with the popular image of J.P. Morgan and "the money trust" very much in mind.

In the words of Prof. Vincent Carosso, a recent biographer,* "the centuries-old role of the individual banker, which Morgan epitomised, was being replaced by large chartered institutions. That and the organisation of the Federal Reserve System made it impossible for anyone to succeed to his place."

The Morgans, Vincent P. Carosso. Harvard University Press 1987.

THE FIRST 100 YEARS

LIFE IN THE CITY: 1888

Buoyed along by Britain's trade boom

Confidence was high and serious money could be made, writes Richard Lambert

THREE PER CENT Consols were trading above par, and all was right with the world. The City of London in 1888 was enjoying a period of extraordinary prosperity, built on its dominant role in the financing of international trade and the development of enormous personal wealth in Great Britain.

The City had become a place where it was possible to make money – serious money – and its scope was changing rapidly thanks to an influx of new capital and new workers. True, the place was not getting a very good press: there was concern about the growing problem of fraud, and about the flamboyant behaviour of some of the younger set. But there was no doubt about the importance in national terms of a community which had become pre-eminent among the world's major capital markets.

For some years past, London had taken over from Paris as the prime settling-house for exchange transactions in Europe. English trade was expanding rapidly in all corners of the globe and – as Walter Bagehot had explained a few years earlier – "English trade is carried on upon borrowed capital to an extent of which few foreigners have an idea, and none of our ancestors could have conceived."

Britain, he went on, had become the greatest moneyed country in the world, and the resources of Lombard Street were unparalleled. On his figures for the early 1870s, the published deposits of the London banks amounted to £120m, which was three times the comparable figure for New York, nine times the Paris total, and 15 times that of the German Empire.

Individual fortunes were rising at an unprecedented rate, thanks to the growth of British trade and manufacturing resources. The number of estates which had been proved at £100,000 a year or more in the latter half of the 1880s averaged nearly 150 a year; a decade earlier, the comparable figure had been 115, and 10 years before that the annual figure was just 76.

Only four millionaire estates were proved in the five years to 1861. Five were to be proved in 1890 alone, and another six the following year.

The joint stock banks were consolidating their position at the centre of the banking system. Most of today's major composite and life insurance companies were already well established, and pushing out into world markets. The Sun Insurance Office's US premium income amounted to £222,000 in 1888, compared with a figure of £391,000 for the home market.

Over at Lloyds, the tall figure of Cuthbert Heath was to be seen cramped into his box every day, bringing innovation and imagination to the writing of insurance risks. Burglary policies were one of his specialities, and were selling well in the face of a crime wave. The number of household robberies is said to have doubled between 1885 and 1888.

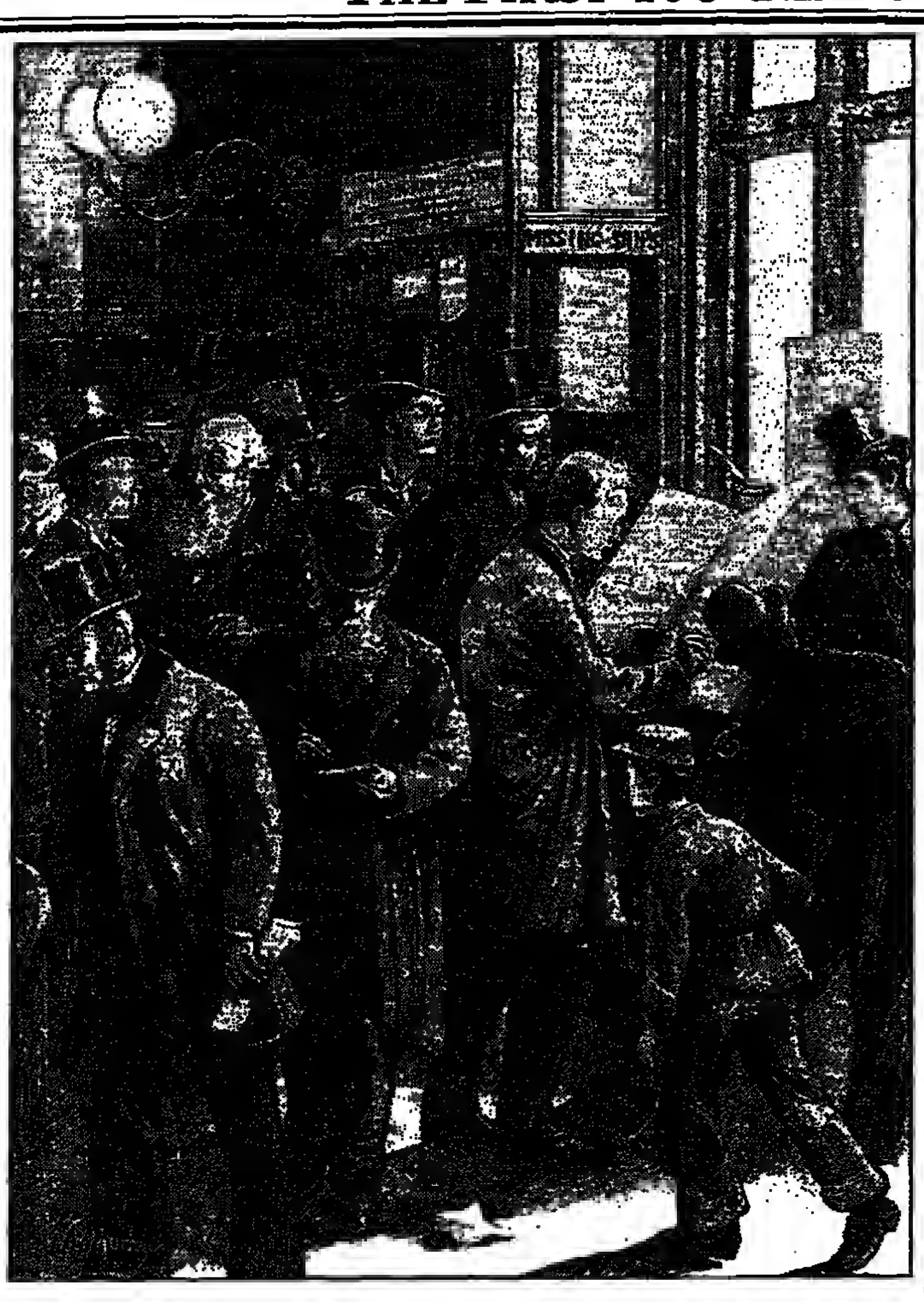
Some less savoury characters were also making their mark. This was the high point in the career of Jabez Balfour, under whose dynamic leadership the Liberator Building Society had become the largest in the land. Using the resources of the society, he built what amounted to one of the world's first financial conglomerates – but he did not get around to inventing Chinese walls.

The collapse of his empire led him to Parkhurst prison, and brought about a major piece of investor protection legislation in the shape of the 1894 Building Societies Act. The Stock Exchange had managed to shake off what one writer has called its semi-outlaw status of the 18th century, but it remained a hotbed of sharp practices and wild speculation. Its membership was rising fast – up by a third to 2,640 in the 10 years to 1887 – but it played a strictly marginal role in the financing of British industry, and was wholly remote from most of the population.

The Economist noted soberly that, "in consequence of the small need for any technical knowledge, the House has in recent years received a great influx of new men recruited to an important extent from society as opposed to City circles."

This inflow of new capital – together with the recent development of an efficient clearing system – fuelled a substantial speculative binge. A flood of new issues was under way – brewery companies like Guinness, plus a whole stream of nitrate companies – and there was hectic trading in South African gold and diamond shares.

There had been a brief panic early in 1887, following the collapse of the Paris and Berlin markets (as *The Economist* observed, "the European stock markets are so closely connected that they always move to a large extent in sympathy"), but that had long since been forgotten by the start of the New Year.



The scene at Lloyds as depicted by the Illustrated London News. Innovation and imagination in the writing of policies had already become one of the London insurance markets hallmarks

There were those who argued that all this speculative activity was unhealthy, and that ways should be found to put a curb on excesses and to concentrate activity on genuine investment business. But as a contemporary had remarked a few years earlier: "A stock exchange restricted to investment business would be as useful and as popular as a public house licensed only for ginger beer."

Meanwhile, the development of the City as a place of work had been revolutionised by the growth of the suburban and metropolitan railways. In early days, the high cost of rail transport meant that only those who could afford very expensive first class tickets could commute over any distance.

But in the later Victorian period, a number of railway companies had started a push to find the new commuters – clerks and artisans who would generate a large volume of low cost business. The Great Eastern led the way. Liverpool Street station had been opened at enormous expense in 1874, and by the 1880s about 34,000 passengers a morning were pushing through its doors.

New dormitories were opening for these new commuters: places like Tottenham, where the cheap fare came to about 1 shilling a week.

Work on the first electric tube train was also well under way. Developed by the City and South London Railway Company, it would open in 1890, running into King William Street in the City.

However, the pace of City life remained more or less unchanged. Bagehot had warned specifically against the dangerous practice of working too hard. "The life of a man of business who employs only his own capital, and employs it nearly always in the same way, is by no means fully employed ... If such a man is very busy, it is a sign of something wrong. Either he is working at detail, which subordinates would do better ... or he is engaged in too many speculations."

Describing the life of the Stock Exchange at the turn of the century, Charles Duguid explained that only the youngest of the juniors need get to town much before 10 in the morning. Lunch, "which may possibly include 50 up at billiards," was an important duty of the day, and the Exchange closed promptly at 4pm.

As a contemporary observed, "the stockbroker makes his money easily, and he spends it lightly in procuring all the luxuries of existence."

Not surprisingly, City life provided fruitful material for novelists and social critics. Trollope's great novel, *The Way We Live Now*, had been published in 1875, charting the rise and fall of the charlatan financier Auguste Melmotte. Years later, the first volume of John Galsworthy's *Forsyte Chronicles* was to be set in 1886.

At the other end of the social scale, George and Weedon Grossmith's *Diary of a Nobody* would soon be making its first appearance in Punch. The hero of this comic saga, the mild Mr Pooter, had worked six days a week with no time off for illness for nearly 21 years and had risen thereby to the post of senior clerk in his City firm.

His ghastly son, Lupin (a devotee of the Financial News) had different ideas. Perhaps the first of the yuppies, he was not going to be bound by the stifling behaviour of his father's firm.

"You take my tip, Guv – off with Perkupp and freeze on to Gylterson, the firm of the future! Perkupp's firm? The stagnant dummies have been standing still for years and now are moving back. I want to go ON."

PROFILE: MONTAGU NORMAN

Bank's awesome chief

Richard Lambert on a man still capable of generating controversy

GOVERNOR OF the Bank of England from 1920 to 1944, Montagu Norman was in his day the dominant figure in British and European finance. Nearly 40 years after his death, he remains a subject of great controversy.

According to his enemies, he was an unfeeling man and an unoriginal thinker, whose preoccupation with financial markets led him to support policies which had an incalculable social cost. His supporters argue, on the contrary, that he was the undeserved scapegoat for his political masters, that he made a major contribution to financial stability in Europe, and that his achievements far outweigh his shortcomings.

What no-one disputes is that Norman was an awesome, even on occasions a terrifying, figure who exercised absolute power over the City of London. Senior executives of Barclays Bank still talk of what happened to a chairman of their bank who incurred the Governor's displeasure in the 1920s – and who, they say, was never invited to sit down in his presence again.

Norman was bred for the job. Both his grandfathers had been on the Court of the Bank of England, and there was never any question but that he would earn his living in the Square Mile. But he was a slow and late developer. He had an unhappy career at Eton and Cambridge, which he left without a degree, and his years at Brown Shipley were punctuated by long absences brought about mainly by nervous disorders. For much of the time, he was depressed and disillusioned with his partners.

But he had two great advantages, which were to prove invaluable in his later career. One was a first-hand experience of the US, picked up initially by way of a spell at Brown Brothers in New York. The other was a remarkable head for business: according to the Dictionary of Business Biography, he knew almost intuitively whose bills to accept and whose to reject.

The Great War changed his life. More and more of his time was spent at the Bank, where his knowledge of American markets was brought into full play as Britain embarked on a programme of massive borrowings from the US to finance its war efforts. In 1917, he was appointed deputy governor: three years later, at the age of 49, he moved into the inner sanctum.

He had two immediate preoccupations which, in different forms, were to dominate most of the next 20 years. One was the need to restore financial stability to the UK economy, which he – and most of his contemporaries – took for granted would require a return to the gold standard. The other was to do the same job on a broader canvas. An early success was his major contribution to the financial reconstruction of Austria, and he was much involved with similar efforts in Hungary and Germany.

His presence on the international stage was underpinned by close relationships with men like Benjamin Strong, Governor of the Federal Reserve Bank of

Montagu Norman: aloof and inscrutable style

New York, and Dr Hjalmar Schacht, the Reichsbank President. However, he never seemed to care much for the French.

In the late 1920s Norman seemed to dominate the international financial community. He had a big part in the formation of the Bank for International Settlements in 1929, which he was determined to develop into an international forum for central bankers rather than just a place for settling reparation disputes.

In the UK, his priorities were soon apparent. He had already been pressing for deflationary measures to protect the exchange rate and fight inflation, and one of his first acts as Governor was to push bank rate up to 7 per cent. Orthodox financial policies and a high exchange rate would attract banking deposits to London, he believed, and would benefit the economy by holding down the cost of imports.

The social costs of such dear money policies were not his problem. In the words of a biographer, Andrew Boyle, "with his fixation for sticking religiously to his side of the barrier between politics and central banking ... Norman steadfastly refused to regard issues like mass unemployment or industrial recession as his official concern." With his enthusiastic support Britain returned to the Gold Standard in 1925, and it was to his great chagrin that it was abandoned in the financial holocaust of 1931.

In a revealing exchange with a Government committee a year earlier, he had been asked whether the bank considered the industrial consequences of its monetary policies. "I should answer," he replied, "by saying that we have them in view, yes, but that the main consideration in connection with movements of the Bank Rate is the international consideration, and that especially over the last few years as far as the international position is concerned – certainly until the last few weeks – we have been continuously under the harrow."

Norman deliberately cultivated an aloof and inscrutable style, which drove the popular press to distraction: he became known as the "mystery man of finance." Paul Einzig reported his contempt for publicity of any kind: "Apart from his speeches at the Bank meetings, and a speech he made at a banquet at the Mansion House, he is never known to have made any public speech."

According to another contemporary account: "When he receives a visitor, he sits at a desk entirely free from papers, pads or any other aids to memory. The desk top is as blank as a sheet of ice. He never makes a note. He never forgets a conversation. The secret of this astonishing memory is to be found in the right-hand drawer of his desk. Here the Governor keeps a diary."

This was entirely a functional affair. Thus the entry for August 4, 1914 reads: "Bank Holiday. War today."

He used his eyebrows like no other Governor, before or since, and his mannerisms were to be aped by generations of successors. Lord Reith, no mean hand himself when it came to putting on an act, reported that "No other man I knew could be so positively attractive when he wished. Few could be colder or remoter if this suited his purpose. There was calculation in the face he chose to wear."

Although Norman's emphasis on the importance of sound money has distinctly familiar overtones in modern Britain, he was most un-Thatcherlike in one aspect of his policy. More by accident than design, he led the Bank in the late 1920s and 1930s into a period of close involvement with large sections of traditional manufacturing industry. He saw himself increasingly as the man to guide necessary rationalisation in engineering, cotton, steel, shipping and other sectors.

His motives were brutally clear. According to the minutes of a Bank committee in 1929, "he considered it necessary for the Bank to support and subscribe to a satisfactory scheme, partly to help the cotton industry, partly to keep the question away from politics, but more especially to relieve certain of the banks from a dangerous position. The growing advances of these banks to the cotton industry were already unduly large and unless they obtained relief there was a danger that the Bank might be compelled to assist them."

Although the Bank's intervention had some stabilising impact in the short term, the long-term consequences may well have been damaging, in that they helped to preserve resources in what were increasingly uncompetitive areas of the economy.

Norman's influence and reputation dwindled during the second half of his long period in office, as economic concerns gave way to political preoccupations, and as the nation sought for people to blame for the depression. In one of his rare public speeches, at the Mansion House in 1933, he caused a furore by the way he dismissed his critics: "The dogs may bark, but the caravan moves on."

He retained great prestige in Basle, and authority in the City. But – as he wrote in 1937 – "the traffic in my street is one way, and the end at present is blocked so I am learning to go slow and trying to be ornamental rather than useful."

PROFILE: SIEGMUND WARBURG

Inventive financier

Barry Riley reviews the career of a master merchant banker

BORN IN 1902 to a privileged position within a Hamburg-based banking dynasty, Sir Siegmund Warburg was deprived of his inheritance within Germany by the rise of the Nazis.

Instead he became the last and, arguably, the most inventive of the series of German Jewish financiers – including the Hambros and the Rothschilds – who have contributed so much over the past two centuries to the development of the City of London.

When Warburg first came to London, in 1924, it was as an exchange trainee with N.M.Rothschild. He returned in 1933 in very different circumstances as a refugee from Hitler, short of money, but not of contacts, and full of ambition to rebuild the family reputation from a new base in exile.

Warburg could have settled in America, where he had extensive connections: at one stage he was a partner in the New York investment bank Kuhn Loeb, and he often spent considerable periods of time in the US. However, he preferred to remain based in Europe.

He adopted British nationality before the war and patiently built up his business in London, initially as the New Trading Company. It was not until 1946 that the name S.G.Warburg appeared in King William Street. Throughout his career Siegmund Warburg stressed personality and independence of view, and feared the mediocrity which he considered would be a consequence of a large bureaucracy. He pursued influence and quality rather than size. He brought a Continental intensity and a punishing work schedule to what had been a casual and

Siegmund Warburg: international connections

relaxed London merchant banking scene.

Initially, he surrounded himself with a group of mostly German expatriates of roughly similar background, but over the years the bank became more British in personnel without greatly changing its character.

In choosing staff he said that courage and common sense counted for a great deal more than relevant job experience.

Fiercely intellectual, Warburg managed to find time for extensive reading of literature in several languages. This was not casual relaxation, however: he would scribble pencil notes inside each volume to note the best passages, meticulous in leisure as in business.

Sometimes he took individuality to the point of quirkiness. His insistence on submitting potential new recruits to a handwriting test became famous. So did the bank's frugality, with its Civil Service-like offices in Gresham Street, where it was based during the 1960s and 1970s, and its double-shift lunches at 12.30 and 1.30.

From nowhere, S.G.Warburg moved to the very top of the corporate finance ladder inside twenty years. One key event was the so-called Aluminium War of 1958-59 which brought Siegmund Warburg fame as the outsider who could take on the Establishment through his mastery of the then unfamiliar tactics of the contested takeover bid.

Warburg put together a joint bid for the ailing British Aluminium by the American group Reynolds and the UK company Tube Investments. But the BA Board chose Alcoa, another US group, as a White Knight. There followed a bitter battle in which Siegmund Warburg brushed aside personal pressure from the Governor of the Bank of England and the Chancellor of the Exchequer and pressed on to victory.

S.G.Warburg's other special claim to fame was its invention of the Eurobond market. Restrictions on the US capital markets made it increasingly profitable to tap directly the swelling volume of short-term dollars held in Europe. Siegmund Warburg searched for a suitable borrower, and he found Autostrade Italiane: a $15m, six-year loan was launched in July 1963.

His retirement in 1973 to Blonay in Switzerland was only partial: his influence remained powerful. But he died in 1982, aged 80, too soon to play a part in the dramatic strategic changes which resulted from the City Revolution and which turned his small, personal bank into a broadly-based securities group.

BANKING

Commercial world's emerging giants

David Lascelles charts the growth of Britain's banking system

BANKING IS ONE of the few big industries in the world today that would still be recognisable to people of 100 years ago. Manufacturing and transport, two top activities of the Victorian era, have changed beyond recognition, and dozens of new industries have come to dominate the economic scene. But banking, with a few modifications, remains what it always was: the business of finance and credit, punctuated by the occasional crisis.

Back in 1888, the City of London's most imposing buildings were already banks, notably the Bank of England, then nearly 200 years old. The chairman of the Committee of London Clearing Bankers was Mr R.C.L. Bevan whose great-great grandson, Sir Timothy Bevan, has just retired as chairman of Barclays. Many of today's well-known names were around too, with some modifications: Barings, Rothschilds, J. Henry Schroder, Brown Shipley, Kleinwort Sons, M. Samuel, Guinness Mahon, Morgan Grenfell, Hambros, Samuel & Montagu, and Lazards.

Most of them had emerged from financing trade and merchanting, though by then a large part of their business was with foreign governments. In 1890, they had to find £10m to bail out Baringa which had become over-exposed to Argentina – another sign of how little has changed in 100 years.

Around the country and particularly in the Midlands, the new joint stock banks were proliferating, and creating the foundations for today's large clearing banks (they were for a time barred by law from operating in the City because of the Bank of England monopoly). The National Provincial, the Westminster, the Midland and Lloyds, were already in business. And in 1896 a group of 20 smaller banks joined up in self-defence to form Barclay & Co Ltd.

By the end of the 19th Century, Britain already had one of the most highly developed banking systems in the world. A growing inter-bank market ensured that surplus funds were distributed to those parts of the country which wanted to borrow, and this brought new concepts of finance to Britain's industrial sector. An efficient clearing house had encouraged the growth of a new-fangled instrument, the cheque, which replaced the old bill of exchange. In 1888 (when the base rate moved between 2.5 per cent and 5 per cent) the clearing house volume was £6.9bn (it is 2,000 times bigger today).

At the height of Empire, the British banking system was also stretching out its imperial reach. A speciel category of "overseas banks" evolved to serve the dominions: the Standard Bank, the Chartered Bank, Grindlays Bank, the Hongkong and Shanghai Bank, and the Australasian banks opened thousands of branches around the globe. The merchant banks, too, had strong overseas connections, though these were usually based on family links, like the Lazards, the Rothschilds, the Morgans and the Browns.

Britain's place at the centre of world commerce established London early as a leading financial centre. In the 1890s, there were over 100 foreign institutions carrying on a banking business in London, according to *The London Clearing Banks*, the classic history of UK banking. Some of them have gone, like the Yokohama Specie Bank and the Imperial Bank of Persia. But others remain: the Bank of New South Wales (now Westpac), the Bank of Montreal, Banque Nationale de Paris, Credit Lyonnais, Swiss Bank Corporation, Chase Manhattan and Morgan Guaranty.

After World War I, the clearers astablished themselves as the giants of the British and world banking acene. Their branch networks proliferated as banking was extended to the growing middle classes. In London, they built the magnificent marble-clad headquarters which still house many of them now. Apart from Scotland, where banking regulations were different, the banks also ceased to be issuers of notes, and the Bank of England finally established its long-sought monopoly. The Bank was still private at this time – it was nationalised in 1946.

In 1933, Midland Bank was the largest bank in the world with assets of £527m. At the height of the Depression, when US banks were falling by the dozen, Midland's chairman, Mr Reginald McKenna, put in a trans-atlantic phona call to National City, the largest US bank. He said that he had instructed his branches to stay in touch with theirs and to extend them any help they might need. The recipient of the call was Mr George Moore, who later became chairman of Citicorp, National City's successor. "I thanked him," he recalls in his recent autobiography, "and in later years remembered that our relationship with Midland Bank should be something more than purely commercial."

The British banking industry managed to escape the worst of the Depression, but it was devastating for US banks. Aside from the huge number of bank failures, it triggered a severe regulatory crackdown in the form of the Glass-Steagall Act of 1933 which enforced a separation between commercial and investment banking which still exists today. The large US banking conglomerates like Morgan, National City and National Bank of Boston, were split up. The US banking industry was also fragmented by laws which prevented banks from expanding beyond their home states. Together, these pieces of legislation restricted the growth of US banks and meant that they have never dominated the global banking business in the same way that US manufacturing companies have in their sectors.

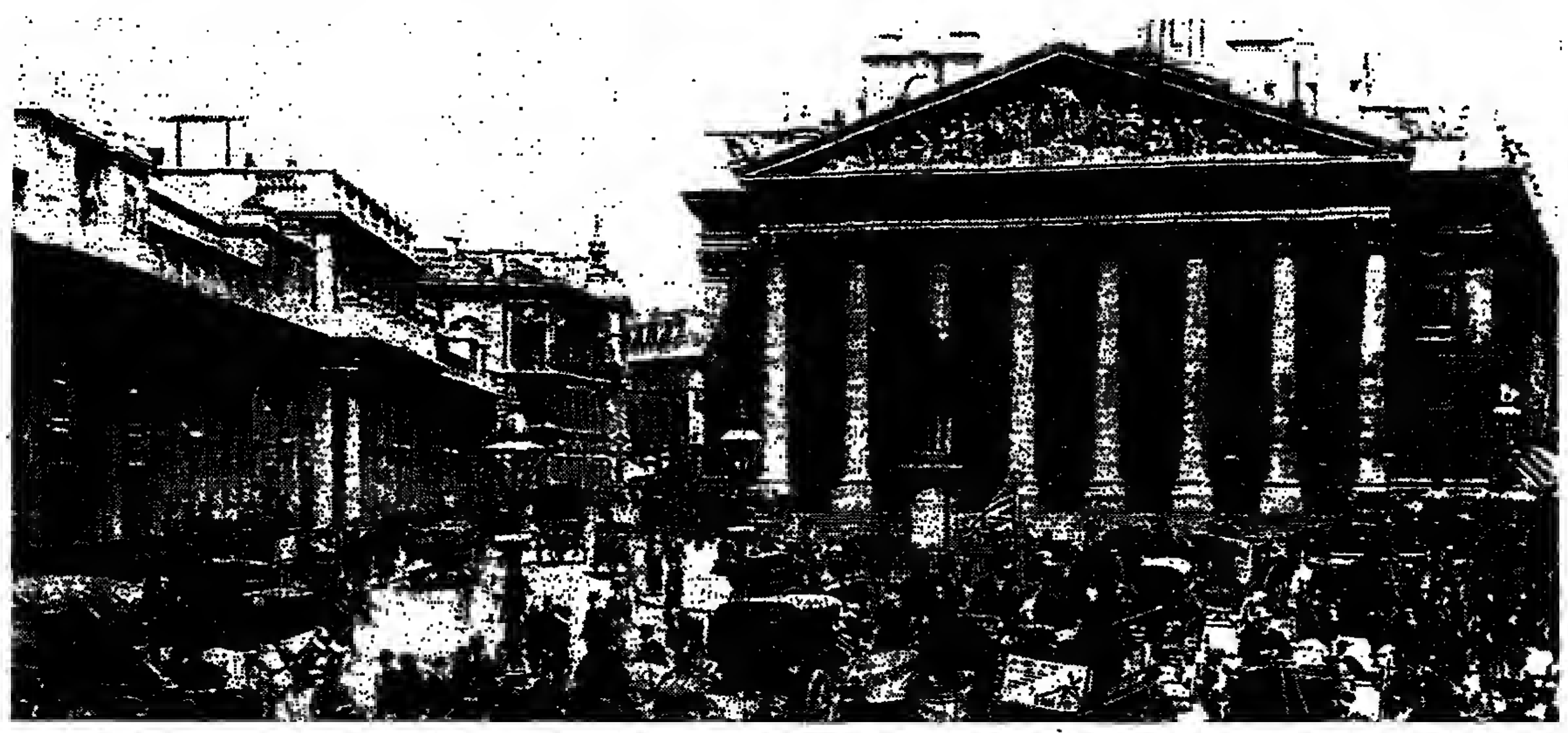
From the Depression until well after World War Two, British banking became rather ossified because of the tight credit controls imposed by government as a result of the war, and also because of the high degree of cartelism that was tolerated. The business was dominated by the Big Five (today's Big Four plus the National Provincial) and they agreed not to compete on price (there was little else they could compete on). But in late 1950s, the industry plunged into a turmoil of change.

It began in 1958 with the lifting of credit controls: this led to much greater competition and more rapid growth. In the late 1960s a wave of mergers reduced the Big Five to Big Four, and produced today's largest clearer, the National Westminster Bank. And in the early 1970s, the new policy of competition and credit control created a more vigorous financial climate, and precipitated the secondary banking crisis which led, in turn to the UK's first Banking Act.

But by then, British banking was losing out to foreign banks. The US banks, and later the Continental banks, and most recently the Japanese banks have all edged out UK banks from the league tables, and put a new stamp on world banking. But this decline has been partly disguised by London's great success as a financial centre – the home of the international capital and currency markets. It is host to 400 foreign banks, twice as many as New York, and has witnessed the powerful currents of international lending and investment banking innovation that have characterised the last 10 years.

Ironically, the issues facing banks today – though strikingly and often frighteningly new to the people who run them – have all appeared before. Foreign country debt, the sharp rise and fall of the securities markets, and the changes brought about by new inventions (the electronic credit card is to 1988 what the cheque was to 1888) have disturbed and shaken banks for decades.

The encouraging thing is that while many banks come and go, even more of them actually stay.



In 1888, the City of London's most imposing buildings were banks and commercial centres. Above, crowds throng the area around the Royal Exchange.

Top 10 banks

The world's leading banks by assets, less contra accounts, in 1986. Values in $m

Rank	Bank and head office	Assets less contra accounts	Total deposits	Capital and reserves
1	Dai-Ichi Kangyo Bank Tokyo	240,742	186,932	5,725
2	Fuji Bank Tokyo	213,471	167,355	6,165
3	Sumitomo Bank Osaka	206,120	165,305	6,074
4	Mitsubishi Bank Tokyo	204,794[1]	159,441	6,117
5	Sanwa Bank Osaka	192,290	152,608	5,011
6	Citicorp New York	191,355	114,689	9,060
7	Norinchukin Bank Tokyo	162,353	146,192	762[1]
8	Industrial Bank of Japan Tokyo	161,617	138,091	4,531
9	Crédit Agricole Paris	154,407	131,712	6,725
10	Banque Nationale de Paris Paris	141,871	120,292	4,471

Source: The Banker

Century of change in world banking

EIGHTY years ago, the list nf the world's top banks (by deposits in £m, or equivalent velue) was very different from the present listing, above, although the big names of today in British banking were then beginning to emerge.

The UK's Big Four are all identifiable in the following list for the year 1908, even if the names and constituent banks are slightly different, *writes Michael Wiltshire*.

National Westminster Bank's constituent members, for example, can be seen in the entries below (numbers 4,8,10, 13 and 15).

English banks dominated the top twenty list of 1908, with 11 overseas banks making up the rest. No Japanese banks appeared in the 1908 ranking, but today Japanese banks dominate the list (by assets), above.

The top banks of 1908, according to Midland Bank archives in London, were:

1. Lloyds Bank, (with deposits of £73m).
2. Credit Lyonnais, (£69m).
3. Deutsche Bank, (£63m).
4. National Provincial Bank, (£57m).
5. London [City and] Midland, (£56m).
6. National City Bank, New York (£53m).
7. Equal: Societe Generale, (£47m); and Barclay and Co., (£47m).
8. London and County Bank, (£46m).
9. Equal: National Bank of Commerce, New York, (£39m); and Comptoir National d'Escompte (£39m).
10. Union of London and Smiths Bank, (£36m).
11. Comptoir National D'Escompte, Paris (£35m).
12. Capital and Counties Bank, (£35m).
13. Equal: Parr's Bank, UK (£29m); and the Bank of Montreal, Canada; (£29m).
14. Dresdoer Bank, Germany, (£27m).
15. [London and] Westminster Bank, (£28m).
16. Equal: Dresdner Bank, (£27m); and the Bank of New South Wales, (£27m); and the Bank of Montreal, (£27m).
18. London and River Plate Bank, (£23m).
19. Banca Commerciale Italiana, (£19m).

The largest of the Japanese banks in 1908 was the Yokohama Specie Bank, which reported deposits of £21m and total assets of £26m. This would have placed it on a par with the Manchester and Liverpool District Bank in the mid-20s rankings.

PROFILE: WALTER WRISTON

A fierce crusader

David Lascelles on the driving force behind Citicorp's expansion

Walter Wriston: Hardly a week without an eye-catching move or outspoken comment

OF ALL the post-war decades, the 1970s were the time when banking as we know it today took shape. They were the years when the multinational banks expanded aggressively abroad, when the international capital markets evolved, and when novelties like electronic cash machines began to appear in bank walls.

Of the bankers who figured in that decade, one of the most influential was Walter Wriston, the towering, caustic-tongued chairman of Citicorp of New York. Hardly a week passed without Mr Wriston catching the headlines with some eye-catching move or outspoken comment.

Citicorp had long been known for its aggression. But under Mr Wriston, it moved relentlessly forward to become the largest US bank with offices in more than 100 countries, and fingers in virtually every financial pie. Where Citicorp went, others invariably followed, or had to come up with a good reason why they thought Wriston was wrong.

Wriston drove Citicorp forward with the vow that he would increase profits by 15 per cent a year and fulfil the prize banking goal of making Citicorp "all things financial to all men." He pitted his own people against each other to squeeze that extra ounce of competitive drive out of them, which made Citicorp a fearsome place in which to work, even if it was the industry leader.

Wriston liked to think of himself as a visionary. He saw banks expanding into investment, insurance, information and even data processing – anything, in fact, that would enable them to exploit their customer base more fully. Backed by the right technology and delivery systems, the sky was the limit.

He made bold advances in many of these directions, and transformed Citicorp into a group so large and with so many parts that others ceased trying to imitate it. Citicorp had become unique.

But his forwardness brought him into a head-on clash with the thick regulatory walls which the US builds around its banking industry. Wriston mounted a fierce crusade to get them abolished and establish "a level playing field" so that banks could compete on even terms with less heavily regulated financial institutions.

However Wriston was robbed of a triumphant end to his career. By the time he retired in 1984, the regulatory walls had withstood his cannonade, though he had made some small breaches in them, and banks were still fighting uphill. Citicorp, too, had failed to achieve his profits goal, and was losing out in status to banks with a more quality image, such as Morgan Guaranty and Bankers Trust. Wriston's hard-driving management techniques had also embroiled Citicorp in controversy – in one case triggering Congressional hearings.

Worst of all, Citicorp was burdened with billions of dollars of doubtful loans to Third World countries which Wriston had approved on the basis of his famous dictum that "countries never go broke." The full cost of the Wriston era was measured last year when Citicorp made a loss of over $1bn because of the provisions it had to make against this exposure.

Since his retirement, Wriston has maintained an uncharacteristically low profile. Although he has been tipped for numerous high offices in Washington, including Secretary of the Treasury and Chairman of the Federal Reserve, he has preferred to move in the wings of business and politics, and leave the centre stage to others.

Ironically, there are now signs of a softening of the US bank regulatory environment, and the Wriston dream may yet be realised. But banking is a tougher business now, and the Wriston days of banking in full cry already seem to belong to a bygone era.

FUTURES TRADING

A delicate balance

Risk transfer and speculative gain go together, says **Alex Nicoll**

The Chicago Board of Trade: from 1856-7 it began defining and regulating grades of wheat, paving the way for the creation of futures markets

"IN THE pit several hundred men are packed together so tightly in an immense dished space, that simply to stand there for a few moments entails little short of suffocation and makes one perspire as if he were in a hot bath. Then add to this the fact that a great majority are in a state of the wildest excitement, gesticulating fiercely and shouting till hoarse in the effort to make themselves heard above the din, which is little short of infernal.

"The hope of immense gain or the fear of ruinous loss adds to the feverishness of the system, and if to this be added the fact that not a few of those in the pit had been up nearly all the previous night trying to balance their books and see just where they stood, the acme of exhaustion may be conceived, but can scarcely be described."

Anyone who has been to Chicago will recognise this description (vividly written, despite the last remark) as of a futures trading pit. The picture is of a great market crash, which brought down a large bank and many trading firms. Months later, its full consequences were still being guessed at. Another report said: "How many private fortunes in the same direction, and in the same enterprise, were also depleted, if not actually wrecked, has not yet transpired."

The quotations are not from the Financial Times, which was not quite born. The first is from the Chicago Tribune, the second from the annual report of the Chicago Board of Trade. The year of the crash was 1887, and it took place in the wheat futures market after an attempt by a mysterious clique to corner the market. Its most prominent members ended up bankrupt, and its leader, a Cincinnati banker, was by the end of 1887 confined in an Ohio state penitentiary.

The New York World reported with barely disguised glee that "the losses have been great and extend to nearly everybody in the trade, and it will be many a day before it (Chicago) recovers from the effect of the catastrophe."

A hundred years later, we are again pondering, as did the CBOT, the unknown effects of a crash. The modern day one was in the stock markets, was far more global in nature, and was not preceded (as far as we know) by an attempted corner of the markets but by a long speculative upswing. Now that futures have spread from commodities to the financial markets, futures are widely thought to have played an important role – some think a destructive one, others believe they averted greater mayhem – in the crash of 1987.

It seems therefore timely to remember that futures have been around for a very long time and that the world has for long been ambivalent towards them. Witness the title of a book published in 1898: *International Gambling in Futures and Fictitious Agricultural Produce*.

Historians like to argue over where precisely the origin of futures lies, but the first contracts to take hold were undoubtedly at the Chicago Board of Trade. It was founded in 1848, but took the most important step towards creation of a futures market in 1856-57 when it began to define and regulate grades of wheat. The establishment of proper standards, measurements, inspection and storage methods meant that traders could deal not just in specific cargoes ahead of their arrival, but instead in any wheat for future delivery that met the standards established by the Board.

In Britain, futures became firmly established for a number of products during the 1880s, having begun with cotton in the 1860s. An important step towards ensuring their smooth operation was taken in 1888 with the formation of the London Produce Clearing House, which as the International Commodities Clearing House is therefore also celebrating its centenary this year.

A.T.Andreas, in a history of Chicago, wrote in 1884 that: "In the efforts to facilitate legitimate trade, it will be curious to note how has been necessarily evolved the most tempting facilities for speculative trade, even to the point of gambling, pure and simple."

Even the markets themselves have always been schizophrenic about this aspect of their nature. Forget the motherhood-and-apple-pie defences being erected now after the stock market crash by Leo Melamed, the modern day mesalah of futures at the Chicago Mercantile Exchange, the CBOT's younger rival. Look instead at the battles of the last century.

The CBOT for long sought – as had others in previous centuries – to ban trading in what were called "privileges" and are now known as options. These were thought to be merely speculative tools and not representative of real business. It also repeatedly tried on the same grounds to stamp out "bucket shops" – operations apparently similar to bookmakera which sprang up all over Chicago, taking their cue from the CBOT's price quotations. The Board tried various ways, including pressuring telegraph companies and even, on one occasion, the shearing with an axe of a cable in the CBOT's own basement, to prevent quotes getting to the bucket shops. (As it turned out, bucket shops were legalised two years later).

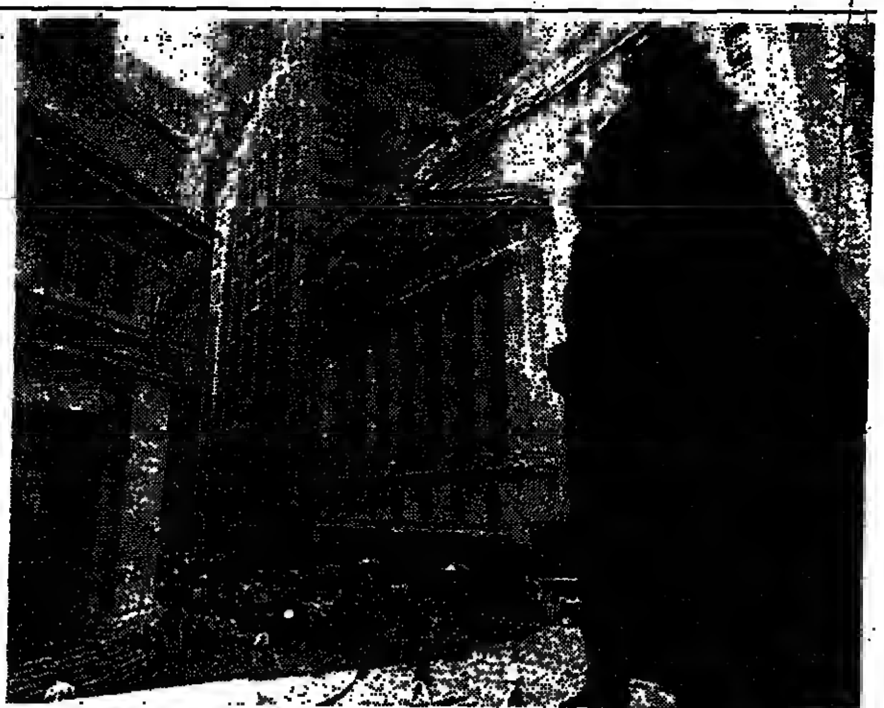
Clearly these were the actions of an exchange determined to keep the trade allied to real business in commodities. And yet the Board itself saw some phenomenal expositions of the art of speculation.

One of the most notable was by its most famous trader of the time, B.P.Hutchinson, who propelled a huge rise in the price of wheat during 1888, the very year when the CBOT was supposed to be suffering from the effects of the 1887 corner. Wheat, which had been around 80 cents a bushel for months, hit $1 in September with Hutchinson already heavily "long" – owning a large amount of wheat for future delivery to him.

In a determined campaign to rout the bears, Hutchinson next day put his price up to $1.50. In a history of the Board of Trade, Charles Taylor writes: "He said that he had intended to fix $1.10 as the top price, but that the shorts were so obstreperous about settling that he had concluded to make the price higher." The next day he set the price at $2. One newspaper reported that "whenever the old gentleman became engaged in conversation with anyone business in the pit stopped." Another account said: "He is the greatest speculator ever known. The load he now carries, day and night, would crush any other operator entirely. But the old man is a giant intellectually, physically and in will power."

So what is the answer to the paradox that markets which are designed to limit the effects of price fluctuations on genuine producers or consumers of products (be these grain, pork bellies or US Treasury bonds) in fact produce arenas for massive speculation? The answer is that futures markets transfer the risk of price fluctuations from those that are unwilling to bear it (wheat growers, or cautious holders of Treasury bonds) on to those that want to take risks. The latter are, by definition, speculators. Without them, risks could not be transferred. Without futures markets, the risk of the farmer or coffee-drinker is greater, or is perhaps assigned instead to the taxpayer through subsidies.

The advent of computers and of financial futures and options has added a new level of complexity to hedging on the one side, and consequently to speculation on the other. It is difficult often to identify which is which. Once again, the balance between the benefits of risk transfer and the often unappealing aspect of the speculator is up for review.



A.P. Giannini: his ambition was to create a transnational bank, catering for the "little fellows". His base was the West Coast, on the other side of the Continent from New York's Wall St (right)

PROFILE: A.P.GIANNINI

Outsider with big dreams

William Hall on a freewheeling entrepreneur who set out to bring banking to the unbanked

NO TWO BANKERS could have been less alike than J.P. Morgan and Amadeo Peter Giannini. The first came from a wealthy New England family, was schooled in Europe, and was unbelievably well-connected.

A.P. Giannini, by contrast, was the son of an Italian immigrant who was murdered in a fight over one dollar, and had to leave school to work for his step-father on the San Francisco waterfront. Whereas J.P. Morgan was one of the richest men in the US, A.P. Giannini was proud of the fact that he was never a millionaire.

Morgan presided at the centre of the US corporate power structure, while A.P. Giannini, or AP as he was nicknamed, was always an outsider, based on the other side of the Continent from Wall Street. He was a free-wheeling entrepreneur whose mission was to bring retail banking to the "little fellow", and if this meant bending the rules, so be it.

AP had endless battles with US bank regulators, worried that he was growing too fast and paying out too much money in dividends. However, AP's biggest fights were with East Coast bankers, and Morgan, in particular, who, he believed, was out to destroy his grandiose plans to build the first nationwide banking system in the US.

Giannini, was in his mid-thirties, when he entered banking by accident, having inherited a seat on the board of the tiny Columbus Savings and Loan Society, in an immigrant quarter of San Francisco. His ideas for developing Columbus's business were not well received so he decided, in 1904, to set up a rival - the grandly titled Bank of Italy.

It was to be "a bank for people who never used one", and AP's explanation to his board of directors on why he hired his first manager is a masterpiece. "The women are crazy about him. He kisses their hands and is polite to them - European style".

Very soon he had broken another banking taboo and started advertising for business with slogans such as "Would money help you?" It was just the first of several banking innovations ranging from mortgage lending to car loans and credit cards which were pioneered by Giannini's bank for the "little fellows".

The bank's early history was marked both by natural disasters – most notably the 1906 San Francisco earthquake and fire - and by the occasional run on its deposits. The latter problem was minimised by Giannini's development of a branch banking system – the first of its kind in the US – and soon he was expanding down into Los Angeles, at a time when the city boasted just 300,000 people and California was only the 21st largest state in the US. Their growth explains the success of what was to become, at one stage, the world's biggest bank – the Bank of America.

By the mid-1920s, the Bank of Italy was the third biggest bank in the US, after New York's National City and Chase National banks, and one in five Californians had an account. A.P. Giannini had been transformed from a small banker with a good idea, into a major financial figure. He had already bought banks in New York (Bank of America) and Italy (Banca d'America e d'Italia), and was intent on setting up a nationwide branch banking system. The choice of the name of his new holding company - Transamerica Corporation - summed up his ambitions.

However, AP never realised his dream of forming a transcontinental bank. In February 1929, after a particularly brutal run on the group's shares, he handed over management control of Transamerica to a Wall Street investment banker, Elisha Walker, and a young French man, Jean Monnet, who later went on to be one of the founding fathers of the European Community. Their commitment to continue Giannini's nationwide financial empire was halted by the October 1929 stock market crash and the subsequent depression.

Soon Transamerica had omitted its dividend, written down the value of its assets and had called on the help of a Boston investment bank which had close ties to Ivar Kreuger, the Swedish "match king". This was too much for AP, who emerged from retirement in February 1932 and won a successful proxy battle to regain control. Although Kreuger's interest in Transamerica was never proven, two weeks after AP won the proxy battle, Kreuger, whose financial affairs were in a terrible mess, returned to Europe and subsequently killed himself.

Just over a year later, Transamerica resumed dividend payments but its growth was curtailed by the continuing interference of Washington. In addition to its substantial industrial and insurance interests, Transamerica controlled 46 banks throughout the West which made half of all bank loans in the region. It was too big a monopoly and by the mid-1950s it had been broken up by the regulators.

Transamerica, which is located only a few blocks away from Bank of America's San Francisco headquarters, continues as an insurance company with various industrial interests. Its smaller banks were sold to what is now First Interstate Bancorporation and Bank of America went off on its own.

NEW FINANCIAL PRODUCTS

Freeing capital from its straitjacket

Stephen Fidler examines the growth of new products and services

AN EXTRAORDINARY aspect of the last century in the world's financial markets has been not so much the speed of their transformation in the last 10 years but that there had been so little change in the preceding 90.

The pace of change has differed from country to country, but its acceleration in recent years, to leave few corners of the industrialised world untouched, is a fact and not merely a perception fostered by our own foreshortened perspectives.

For decades, the financial systems in the industrialised world were for the most part highly structured, heavily dependent on the traditional activities of banking, with clear divisions between different types of institution. In the last decade, many of these structures have been swept away and, often with the encouragement of government policy, competition has intensified both within and across national boundaries.

An inextricable part of this development has been the creation at an unprecedented rate of an array of new financial products and services – the process of financial innovation.

According to the Organisation for Economic Co-operation and Development in a 1984 study, financial innovation has been a response to "economic incentives resulting from a combination of market forces and deliberate government policies."

To explain it, the OECD cited high and fluctuating rates of interest and inflation, regulatory changes, new technology, growing public sector financing needs, domestic and foreign competition and the introduction of floating exchange rates in the early 1970s.

Mr Lamberto Dini, as Director-General of the Bank of Italy, has described innovation as the development of techniques "to unbundle the different risks of financial transactions. The interest rate, liquidity, currency denomination and maturity of financial instruments began to be separately priced and negotiated on separate markets, with an unprecedented proliferation of possibilities to invest, borrow, hedge or speculate."

The viewing of financial instruments as a bundle of cash flows marked an important liberation from the straitjacket which had limited users and suppliers of capital to the traditional formats of the past.

Mr David T. Llewellyn, Professor of Money and Banking at the University of Loughborough, has pointed to four factors contributing to the recent flood of innovation: competition among suppliers of financial services, technology, a growing marketing ethos among suppliers of financial services and the internationalisation of finance.

Globalisation has influenced innovation in two ways: it encourages copying from other financial systems, which is further fostered by the entrance of foreign institutions to domestic markets, and allows market users previously unavailable access to foreign markets.

He has categorised innovations into four categories from the point of view of suppliers of services: defensive – such as those created in response to policy and regulatory changes; aggressive – creations which financial institutions believe they can market; responsive – when they are designed to meet a change in the portfolio requirements of customers; or protective – when institutions adapt techniques because of their own portfolio constraints.

Financial innovation is not a random or arbitrary process, but one which depends upon shifts in portfolio preferences and in the constraints on users and suppliers of financial services. It can be prompted by changes in the market environment or in government policy. There is also the phenomenon which Mr Llewellyn has called "spectrum filling", the tendency to innovate by plugging gaps, say in maturities, marketability or yield, in the range of financial products.

The floating rate note, for example, was clearly developed as a response to the high inflation of the 1970s, which sharply reduced investors' appetites for fixed-rate bonds.

Foreign exchange and interest rate swaps have been aggressively marketed and have been made possible by technological and communications developments and the internationalisation they encouraged. The technique makes use of inefficiencies in the relationships between prices in separate markets, in the process ironing out the anomalies.

Commercial paper, for example, has existed in the US since colonial days. Its development owed much to the ban on interstate banking and to the reserve-based banking system.

Its extraordinary growth in the last 10 years inside and outside the US, however, was fostered by disintermediation – the attempt by commercial banks to reduce their ownership of financial assets, which provided the trigger for much of the innovation of the 1980s.

This was partly a response both by banks, encouraged by the action of banking regulators, and by investors to concerns which arose from the banks' heavy exposure to certain borrowers, particularly those in Latin America which had declared themselves unable to meet debt commitments.

US banks' efforts to lighten their balance sheets encouraged securitisation – the conversion of assets, such as mortgages and credit card receivables, into securities sold direct to investors.

Yet, it is often the case that an innovation will thrive even when the original trigger has long disappeared. The Eurodollar market, the pool of dollars which exists outside the US, developed out of the post-war capital injections by the US into a war-torn Europe, but it continued to exist long after the Marshall Plan became history.

Similarly, growth in the Eurobond market was spurred by the US Interest Equalisation Tax, introduced in 1963 by the Kennedy Administration and intended to stem capital outflows from the United States caused by the flood of foreign bond issues in the US domestic markets. When this tax was repealed in 1974, many felt – wrongly as we now know – that the *raison d'etre* of the Eurobond market had disappeared.

Dealing in commercial paper at Citicorp, in London

More recently, however, there has been evidence of the way that financial innovation can run ahead of the ability of individuals fully to comprehend what has been created.

This was underlined dramatically in 1986 and 1987. Banks had been issuing instruments in the Eurodollar market known as perpetual floating rate notes, which had no final maturity but paid interest tied to floating rates in the interbank market.

Much of this paper was sold at very narrow margins to interbank rates, until it became clear that built into the pricing of the bonds was a highly questionable assumption that they would always be readily marketable. Prices collapsed as if there were a sudden recognition of the emperor's true state of undress.

Similarly, $275m in losses made by a trader in the mortgage department of Merrill Lynch in 1987 were partly due to a lack of understanding of how some of the new synthetic securities would perform when exogenous factors, such as general interest rates, shifted.

Financial innovation clearly has broad consequences for financial supervisors and monetary authorities, and not merely because so much of it is designed to circumvent regulation or tax.

Mr Lowell Bryan, a financial consultant and director of McKinsey & Company, has underlined this forcefully in an article in the Harvard Business Review. Speaking about securitisation, he said: "The potential opportunities and difficulties from securitised credit are so great, and the revolution fomenting in the structure and operations of banking is so enormous, that the way we manage the financial part of our economy may become obsolete."

It is a point well understood by the monetary authorities. In 1986, a study group of the Bank of International Settlements concluded that it was possible that innovation may contribute to strains in the international financial system "for example, through the rapid growth in the volume of transactions being settled through the payments system, or through the increased volatility in financial markets."

The controlling of money supply and its reliability as an economic indicator have both been called into question in many Western economies during the 1980s by the shifts in personal liquidity preferences brought about by new financial products.

The group concluded that innovation "generally has improved the efficiency, breadth and flexibility of international finsncial markets" but that "central banks must address the far-reaching policy issues that arise from the process of change."

PROFILE: JEAN REYRE

An independent seer

Paul Betts talks to the legend who ran Paribas for 21 post-war years

"YOU REALISE you are talking to a living monument," says Jean Reyre with a mischievous grin in a small annexe of the Banque de Paris et des Pays Bas (Paribas), overlooking the bustling Avenue de l'Opera.

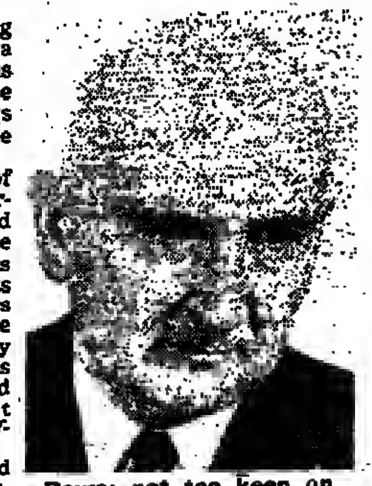
Born in the closing days of the last century, the 88-year-old Reyre is still as sharp and petulant as ever. Without the slightest hesitation, he speaks his mind about past presidents of the bank he ran for 21 years and where he spent his entire working life. "If you ask my opinion, I think Paribas has become too big today. I would have liked to have seen it remain a smaller *banque d'affaires*, a bit like Lazard."

But even if he is now tucked away in a little office, his presence still haunts the ornate corridors of the country's leading investment bank. Mr Michel Francois-Poncet, the bank's current chairman, openly acknowledges that Reyre is his spiritual father. He has even put hia desk exactly at the place where Reyre had his. "I like him dearly but not everyone would agree with me. He was a tough customer," says Francois-Poncet.

Reyre, who prevented the bank from being nationalised after the last war, was the undisputed boss of Paribas between 1947 and 1968. He was responsible for building up the bank as a prime player in the post-war reconstruction of France and turning it into an aggressive international financial group. He also developed the bank's international presence, opening sn office in Moscow 25 years ago and the New York subsidiary in the 1960s.

He was also one of the pioneers of export-credit financing, although he acknowledges in retrospect that it was perhaps not such a good deal after all. "We helped finance steelworks in France and then through export credits steelworks abroad which then competed with our steelworks. I don't have to tell you what subsequently happened to the steel industry," he remarks.

With a group of "chuma" including Siegmund Warburg, Herman Abs of Deutsche Bank, Hans Schaeffer of Union de Banque Suisse, and Carlo Bombieri of Banca Commerciale Italiana, he moved the bank into a leading position in the emerging International bond market in the early 1960s.



Reyre: not too keen on de Gaulle

A man of authority and of great independence, Reyre rubbed up the noses of the French administration although he always had good contacts with political leaders. "I was not so hot on General de Gaulle but I liked President Pompidou," he says.

Reyre joined the bank immediately after leaving Sciencea Politiques and was soon working closely with Horace Finaly who reigned over Paribas between 1918 and 1937. It was Finaly, a close friend of Leon Blum, the Socialist leader, who expanded the bank's activities in Eastern Europe before the Second World War wiped out all these businesses. "Paribas was always a bit left," chuckles Reyre.

During the period he worked with Finaly, Reyre recalls vividly his dealings with the Swedish match king Kreuger. "He was a fascinating man but we started getting worried in 1934 when he paid us with large amounts of bonda issued by Mussolini. I set off to Rome and the then French ambassador went to see Mussolini to show him the bonds. Mussolini sald he did not know anything about it. Back in Paris, I went to see Kreuger in his elegant flat in the Place Vendome. He said, in his most comforting manner, that there must have been some misunderatanding. The oext day he was found dead in his flat: he had committed suicide."

Francois-Poncet, the current Paribas chairman, says Reyre had the reputation of being a wheeler-dealer. "I suppose you could call him a raider before his time. He was rather anti-establishment and the establishment disliked him intensely," he explains. Indeed, Reyre was behind the first ever hostile takeover attempt in France when Antoine Riboud, the head of the BSN food group, unsuccessfully tried to acquire the venerable Saint-Gobain glass and pipes concern.

Reyre, who still regrets "all the opportunities I missed," says one of his best coups was the salvage of the Machines Bull group which he helped link to General Electric of the US before Bull teamed up with Honeywell.

When he took over at the top of Paribas, Reyre, who was keen to be surrounded by a small group of aggressive colleagues "hungry to go out and get business," reduced the bank'a ataff from 2,200 to 1,200 in two years. "You have to be brutal," he says.

But it was Reyre'a independence which ultimately cost him his place in 1968 when the bank's board turned against him during the famous battle between Paribas and the Suez group, its eternal rival, over the CIC banking group. Reyre had arranged Swiss financing for the fight but not kept his board informed. After a palace revolt, he was forced to step down.

"One of the characteristics of Paribas is that their chairmen don't leave the normal way," aays Francois-Poncet. "But there was an uproar when he was forced out by the board becauae the staff were completely behind him," he adds.

Reyre has undoubtedly left a major mark not only on Paribas but also on the French banking and financial industry. Anticipating new trends well ahead of their time, he turned Paribas into a powerful and opportunistic international organisation. Although a well-trained banker, he was more of a financier who did not always play by the conventional rules of the game.

Francois-Poncet says: "He influenced and taught me a lot. But I taught him one thing. How to play gin rummy."

PROFILE: HERMANN ABS

A lifetime in banking

Haig Simonian looks at a career in international banking stretching back to 1929

IT WAS back in September 1937 that Mr Hermann Abs, then a mere lad of 35, joined the directors of the Berlin-based Deutsche Bank und Disconto-Gesellschaft, which later became the Deutsche Bank, West Germany's lesding financial institution and a force in world banking today.

But even as the "Benjsmin" of the board, Mr Abs, who was born in Bonn in 1901, had already clocked up a sufficiently varied career to warrant his promotion to the bank's top echelon, where he became responsible for foreign business.

After law and economics at the universities of Bonn and Cologne – interspersed, in the German way, with a banking apprenticeship – Mr Abs joined Delbrueck Schickler, a respected private bank, in 1929. Like himself, it is still going strong today.

Within six years, he had become a partner. His foreign experience, gained in Holland, England and France, as well as across the Atlantic, and mastery of half a dozen languages, was soon put to good use.

But it was to be a short stay at the top of the small bank. Two years later, in 1937, Mr Abs unprecedentedly took a salary cut and moved to the Deutsche.

There were stormy years ahead, first under the Nazis and then, after 1945, during the occupation, when Omgus (Office of Military Government for Germany, United States) in particular wanted to break up the bank.

Indeed it was only re-unified in 1957. Meanwhile, Mr Abs, a Catholic Rhinelander like Konrad Adenauer, Germany's first Chancellor, and who likewise never joined the Nationsl Socialists, went through a brief internment by the British.

After 1945 Mr Abs turned to reconstructing both his bank and the country with equal gusto. By 1948, he had become a guiding light in setting up the Kreditanstalt fuer Wiederaufbau, Germany's Reconstruction Loan Corporation, which was created to help the country back onto its feet using Marshall Plan aid.

By the early 1950s, he was playing a key role in restoring confidence in the new Federal Republic of Germany. He led the delegation in the London talks on settling Germany's foreign debts, and he took the initiative in re-opening Germany's capital market to foreign issuers once the Deutschemark was restored to full convertibility in 1957.

Conveniently, it was a time when the interests of Deutsche Bank and Deutschland were closely intertwined. A year after the capital market was re-opened to foreign borrowers, the bank led the first deal.

Mr Abs retained his special interest in international banking throughout his time on Deutsche's bosrd, though the 10 years he spent as speaker (chief executive) obliged him to keep abreast of sll developments. They were busy years as the bank first picked up the pieces, then grew hand in hand with the emerging economic giant as industrial investment and private affluence took off.

But even in his busiest years Mr Abs never set aside his passion for art snd music. Frankfurt's Staedel Gallery and the Wallraf-Richartz collection in Cologne have benefited from his interest in the graphic arts, while the foundations supporting the Goethe Museum in Frankfurt and the Beethoven Haus in Bonn also have good reason to thank him.

But the greatest satisfaction must come from those institutions, domestic and foreign, which still call on Mr Abs's financial wisdom. Not that he has forgotten his own bank, either, where he has now spent a half century on the board.

Indeed, his shadow is so long there that some suggest only the most callow director – now more likely to be in his 50s than his 30s – would propose a major initiative without first considering how the honorary chairman would react.

Deutahce Bank'a Hermann Abs: a major role in setting up the Kreditanstalt fuer Wiederaufbnau, created after the war to help Germany back on to its feet through Marshall Aid funds. One of the twin towers (right) of Deutsche Bank's modern headquarters in Frankfurt with statue of Schiller in the foreground.

Pre World War II Advertisement

THE FIRST 100 YEARS

LIFE IN THE CITY: 1958

A glamour all its own

The City was seldom out of the headlines, as **Richard Lambert** reflects

THE YEAR 1958: six yeare after the end of meat rationing and six years before the introduction of capital gains tax; the start of a glorious bull market which was to take the FT Index up from well under 200 to over 300 in the space of two years; a period when giant takeovers were reshaping British industry, and causing much concern in Westminster and the country at large.

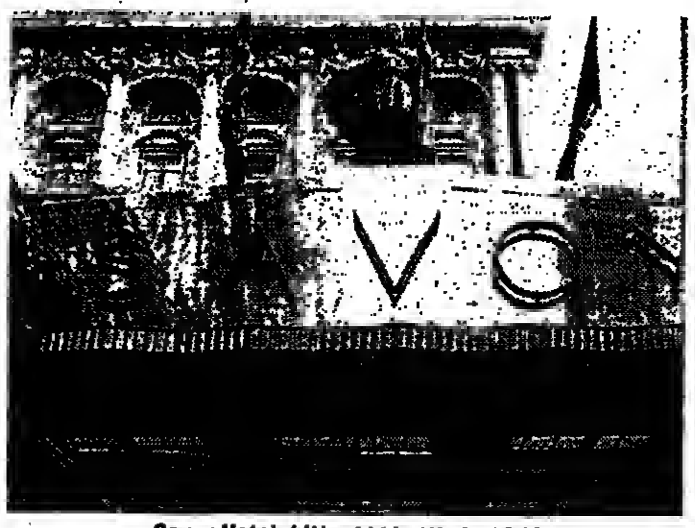
In the words of George Bull and Anthony Vice*, the City seemed to many people to be both dull and romantic. Dull, because it went about its business in much the same way as it had for decades. Run on the lines of a group of gentlemen's clubs (there were no women in any position of prominence), it remained a place of hierarchy and established order which might not have seemed that strange to Mr Pooter. There were gentlemen – on the boards of the great banks and insurance companies, the partners of the broking firms – and there were players.

These included the general managers who actually ran tha big companies and who would almost invariably have worked their way up from branch levels over many years. Self regulation worked, more or less, because the people of influence were relatively few in number, and generally knew each other well.

But the place also had an excitement and glamour of its own. It was seldom out of the headlines, thanks to the activities of bold entrepreneurs like Charles Clore, Hugh Fraser, or Isaac Wolfson. And new fortunes were being created overnight.

The starting gun for the great property boom had been fired less than four years earlier when Mr Nigel Birch, Minister of Works in the Conservative Government, had abolished building licences. A young estate agent named Harry Hyams had already made some very nice profits in the subsequent excitement, and property developers were beginning to earn public odium. Despite protest rallies in 1957 led by Vivien Leigh, no less, Felix Fenston had succeeded in his plans to demolish the St James's theatre.

Charles Gordon has given a vivid account of City life in the latter part of 1958 in his book "The Two Tycoons", the story of Clore and Jack Cotton. The City, he says, was then a genuine village and much smaller than it is today. Brokers seeking offices in New London Wall, past Moorgate towards Aldersgate, were thought to be committing commercial suicide. The new Bank of England building by St Paul's was the first dramotic enlargement of the City, but the FT's building nearby was still considered way out of the centre.



Savoy Hotel: bitter bid battle in 1953

Harry Hyams

Sir Charles Clore

The style was black bowlers, dark suits, white shirts.

The City remained Victorian in the way management treated staff, and vice versa. Luncheon vouchers were considered a great innovation, and asking for a pay increase was often an act of impudence. "Giving notice or leaving a job was definitely lower-class in the ranks and bad form at the top," Gordon wrote. "Dress was still formal, bowlers were black, shirts were white and suits were dark. Many still wore detachable collars and cuffs......If a coloured shirt was worn, the wearer's job was in jeopardy."

The foreign banks were only just beginning to reappear - Paris was a major rival - and to the considerable annoyance of their domestic rivals, they were offering higher salarles and better conditions to attract their staff.

Industrial companies paid little attention to the City, where investment analysis was in its infancy, and the idea that the press had any legitimate interest in their activities was only just beginning to be taken seriously. Interim statements were a novelty: the furthest that most companies would go in the way of self promotion was to advertise the chairman's annual statement in the manner of a black bordered funeral announcement.

Deals could still be transacted without armies of lawyers in attendance. In what were relatively small clubs like Lloyd's or the Stock Exchange, it was possible to rely on a fellow member's word without requiring sheaves of legal agreements to back it up. Yet behaviour which today might land you in gaol was regarded as perfectly acceptable. What was a stockbroker for if not a stream of useful inside tips?

Those with a sense of nostalgia for the good old days would do well to recall the takeover battle for the Savoy Hotel group in 1953, a bitter affair tinged with a dark streak of anti-semitism and with financial manoeuvres which would appear outrageous by today's standards.

As Oliver Marriott* has explained, the establishment was horrified at the attempt by Harold Samuels of Land Securities to grab control of its favourite watering holes. The Savoy Board's defence tactics included a plan for hiving off control of the Berkeley Hotel and several other properties away from shareholders and into the staff pension fund. And its path to independence was smoothed by both the Treasury and the Bank of England, which granted special exemptions to various transactions at a time of tight controls.

Although this bid failed, there were sound economic reasons for the wave of takeovers which had been causing increasing political concern and was jeopardising relationships between the City and industry. Dividends had been restrained after the war, and from 1947 to 1958 there was an extra profits tax on dividend payments, so that profits had been rising faster than dividends and share prices. Companies had large cash hoards, often left over from the war, and undervalued assets.

A major restructuring was under way in the UK economy, with old industries like textiles and heavy capital goods shrinking in importance relative to electricals, consumer goods and machine tools: the shape of the nation's retail trade was being transformed. The opportunities for the astute exploitation of assets were enormous, and in most cases the City was prepared to play its part.

But the rules were about to change. If you had to pick a single event which was to show the weakness of the old financial establishment and the arrival of new forces in the Square Mile, it would be the takeover battle for British Aluminium, which began in February 1958 and ended the following January with the defeat of the old order.

The British Aluminium board, supported by its advisers Lazards and Hambros, went to extreme lengths to shake off an attempt to seize control which had been orchestrated by Siegmund Warburg on behalf of US aluminium producer, Reynolds and Tube Investments.

Suspected until then, as he said himself much later, "as the Jew, the newcomer, the fellow who had not been brought up in British schools and who spoke English with a foreign accent," Warburg's success was to change the approach to business in the City.

As Jacques Attali wrote in his biography "*A Man of Influence*":

"From then on it would no longer be shameful to get up early or work late. Finance would cease to be confidentially mentioned in clubs and admitted into public places, no management or heir would be safe from a coup d'etat. The plush legend of City quality was in pieces. For better or worse."

**Bid for Power*, by *George Bull and Anthony Vice*. London *1958*; *The Property Boom*, by *Oliver Marriott*. London 1967*

BANKING IN THE FUTURE

Basic tasks will remain

Banking will still be recognisable 100 years hence, predicts **David Lascelles**

THEY WERE already well past Mars by the time Dan Dare remembered that he had forgotten to pay the milkman. "Drat!" he muttered.

Although he had his Instabank module in his pocket which could transfer money from his Earth Bank account to the milkman's at distances of up to a billion miles, he couldn't remember the milkman's account number. And without that he was stumped.

He'd have to slip a tenner in an envelope when they got to Saturn and drop it in the mail. At least he knew the milkman's address.

What a let-down for electronic wizardry. But if Mr Dare's exploit seems to jibe with your visions of an all-electronic banking future, take note. Banking may indeed be in the grip of earth-shaking change, but it will still be recognisable 100 years from now.

Banks perform two very basic jobs in the economy, and unless you believe that one or both of them will disappear (and it would have to be cataclysmic) there is little reason why banks will change much either. All that will change is the way that they do it.

Banks bring together people with money and those who want it – and someone will have to do that job in the decades ahead. The fashion nowadays is to argue that it need not necessarily be the banks: it could be building societies, or savings banks; or, if you are talking about investments rather than deposits, it could be the life insurance companies and the investment firms. Or even some mega-something-or-other combining all of these.

But it will most probably continue to be banks – for several reasons. One is that banks are emerging as the dominant, all-embracing financial institutions of our time, and they are taking over the services offered by building societies and investment houses. Another is that institutions which accept other people's money are subject to tight regulatory controls – and these are being increasingly linked to banking controls. Other types of financial institutions may be forced to become banks – or at least subscribe to banking-type disciplines – whether they like it or not.

What could change, though, is the mix of money that goes through banks as loans and as securities. The 1980s have seen a big swing towards securities, but if history is anything to go

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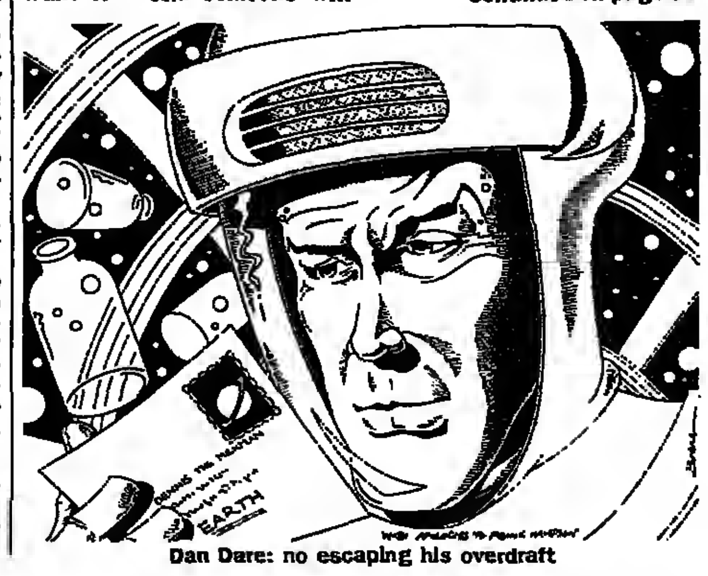


Dan Dare: no escaping his overdraft

Continued from page 55

by, loans will remain the bread and butter business for banks, with securities the jam that comes and goes on top as markets boom and bust. Loans are much simpler, and banks are evolving into professional risk-takers. Indeed, there is a strong probability that the securities markets will decline in importance over the next century. They could either be regulated or automated out of existence, and much of the volatility in currencies and interest rates which triggers high trading volumes today will disappear as the world economy becomes one.

The other job that banks do is money transmission – responding to their clients' requests to transfer money to someone else. This service is as basic to a modern economy as the road and telephone networks, and it will stay. But the way banks do it will change. Paper (cheques and credit card slips) will go, and be replaced by electronic blips which we will trigger by punching keyboards linked to our TVs, or portable telephones. In shops we will pay by slipping electronic cards into slots. But do not expect cash to disappear completely. It is too convenient. How would you pay for a newspaper, or give your kids their pocket money without it?

Many things, though, will alter quite radically. Don't encourage your children to become foreign exchange dealers. There will be a common global currency by the next century, and all those marvellous currency hedging devices invented over the last 10 years will seem no more than a final fling before the great coming-together. This will wipe out a large profit-earner for banks, and force them to seek new businesses.

Fortunately for them, though, financial services will be one of the fastest growing sectors of the world economy in the decades ahead. The increase in personal wealth and the growing sophistication of the man in the street will ensure steadily rising demand for financial facilities and advice.

Demand for merchant banking services will also remain strong, particularly for merger and acquisition advice. International deals will constantly grow in size and number as national barriers fall away. But the financing of deals will become more streamlined and easy, so the underwriting and money-raising side of the business will become less interesting and attract lesser talents. That will also make it less important for corporate advisory teams to be attached to large, well-capitalised houses equipped to do the underwriting, so the tradition of independence in merchant banking will live on.

The structure of the banking industry will shift. It will become more concentrated around a few global groups – rather like the oil industry's famous seven sisters of the post-war years. And they will have an interest in every single purchasing transaction that happens in the world, whether as financiers of it, or as conduits for the payment.

The regulatory tide will move in the banks' favour in the next few decades, and they will be able to choose with greater freedom between markets and businesses. But after that, when they have become huge and highly diversified – but overpowerful and omnipresent – there will be a reaction.

Half of the giants will be Japanese, and the rest equally in the US and in Europe (where the late 1990s will see a big wave of cross-border bank takeovers). Their business will be highly automated. They will be able to issue loans at the push of a button, because everyone's credit history will be in a central database, and they will be able to transfer funds between anyone anywhere instantly, because every individual and corporation will have a global account number, rather in the way that everyone now has a unique global telephone number.

But that will not be the whole – or even the most interesting part – of the story. The process will not be one of perpetually expanding banking behemoths. Although automation will enable banks to segment the market and target services at particular groups, smaller specialist banks will spring up to serve local communities and particular markets, leaving the high volume, utility-like services to the giants.

These new banks will emphasise personal service to counter the faceless, computerised style of the global giants. This means that the bank branch, in some form, will survive, but as a place to meet and talk with your banker, rather than as a string of teller positions. Or maybe you will talk to him on your TV-phone: the personal touch will be a big selling point.

Dan Dare eased back on the controls as Saturn drew near. His bleeper bleeped. It was a message from the Earth Bank's Moon branch where he kept his account for tax reasons. "Concerning your overdraft..." It began. Dan Dare cursed. There was no escape, and he knew it.

A City dealing room

LIFE IN THE CITY: 1988

Lovely City sadly changed

Richard Lambert takes a backward look at a period of major change

IT WAS THE morning after the night before. A time of great uncertainty and self-doubt, when business structures which had been built at enormous expense were facing for the first time the test of hostile market conditions. Maybe everything would work as planned. Maybe it wouldn't.

At the beginning of 1988, the City of London was still coming to terms with the most radical set of changes in its organisation and working practices that had been experienced in 100 years. Its financial institutions appeared to have survived without any major disasters the financial shock which had occurred only a few months earlier, when share prices had suffered a juddering collapse. But it seemed clear that its working life would never be the same again.

For one thing, people worked harder and longer than anyone would have imagined possible a few years earlier. In a complete reversal of past practice, it had actually become fashionable to put in a 12-hour day and to boast about telephone calls from Australia at three in the morning.

Perhaps it was a sign of insecurity. This was not just a response to the national problem of unemployment which, although by now on a falling trend, seemed certain to remain at very high levels. No, the City had also developed new anxieties of its own. Many firms had for the first time built up enormous fixed overheads – computers, dealing rooms and smart buildings – a development which was forcing them to take a much more rigorous view of their other expenses in difficult business conditions.

Salaries had been bid up to what in some cases were unbelievably high levels by the flood of newcomers who had come charging in when the Stock Exchange had opened its doors. And bonuses played a much smaller part in overall remuneration than they used to, which made it harder to tighten belts in lean times.

There was another reason for feeling insecure. During the period immediately before and after the Big Bang reforms of 1986 – when firms had been staking out their position in the new marketplaces – there had been an enormous turnover in the staff of many banks and securities firms. In return for big payments, whole teams of people with a particular expertise would up sticks and move together to a new employer.

The old idea that it was bad form to change jobs had been replaced by the view that there must be something wrong with anyone who had not made such a move.

Employees' loyalties to their companies had dwindled – and vice versa. In the first few months of the year, a number of major firms had already announced painful redundancies, and more appeared inevitable. It seemed as though Wall Street's approach to hirings and firings – which had always been much more cavalier than the City's – might be crossing the Atlantic.

Working conditions for many people in the City had also been transformed. The trading floor of the Stock Exchange had become redundant within a few weeks of Big Bang, as traders moved upstairs to their screens. Eye-to-eye contacts, which had seemed so important in the past, had become irrelevant and inefficient: vast dealing rooms, filled with frenzied looking young people roaring down phones and to each other, had become a cliche of television news reporting.

Relationships between firms and their customers had become more fluid than in the the past. In the more competitive climate, rivals could fight each other on price as well as on service, and they had become skilled at such ungentlemanly pursuits as poaching and self-promotion. Everyone who was anyone had hired a public relations firm: some had two.

City lunches were not what they had been. Glasses of port did not seem to slip down so easily in this more abrasive world. There were rumours of iced tea being offered by some of the less suave American intruders.

The rules governing the conduct of business were also in the process of dramatic change. Some modifications to past practice had been inevitable once the old club rules had gone out of the window, but both the Conservative Government and the City itself had intended that they would be replaced by rulebooks that would not be so very different, based on a practitioner-run system of self-regulation.

But the legislation which had eventually come out of Parliament was much tougher than had originally seemed likely, partly as a result of some juicy scandals which had hit the headlines during the passage of the Bill. The different regulatory organisations had drawn up business conduct rules which were immense both in size and scope, and which were specifically designed to withstand the test of the courts. Lawyers were everywhere.

No one yet knew how the new regulations would actually work in practice. The one sure thing was that they would be expensive, on some estimates costing well over £100m a year when everything was taken into account. That was another reason for feeling uneasy at a time when business conditions were so uncertain.

The City had changed physically as well. The Corporation of *Lloyd's*, of all institutions, had chosen the most controversial of designs for its new market place. The building won architectural prizes, but little affection. Elsewhere, every office seemed to have grown its own atrium: there were waterfalls, sculptures, and much marble.

The boundaries of the working community had been extended considerably, to the extent that the City no longer really described a place on the map. One important investment bank had moved west, and others were planning moves into Docklands. It remained to be seen how far efficient telecommunications would compensate for such a dispersion.

Inevitably, national perceptions of the City and of the people who worked there had changed too. It was no longer seen as a dull place full of accountants in bowler hats. Instead, the caricature image was of a very brash young man, being paid an unheard-of sum of money and driving a German sports car.

"Yuppie" had become a term of abuse, referring almost exclusively to City workers. Early in 1988, two London theatres were showing plays about just such groups of people.

In the boom period, there had been much bitterness all around the country both about the City's pay scales and about its ethics: the headlines had been full of alleged malpractices by prominent people. Accordingly, there was a distinct air of *schadenfreude* in the land after the share price collapse.

There was also, of course, a much brighter side to the picture. The system had continued to function efficiently through all this period of upheaval, and customers were receiving services which were both cheaper and more efficient. Competition had blown away the cobwebs of the centuries: for the survivors, the City was going to be a much healthier and more bracing place in which to do business.

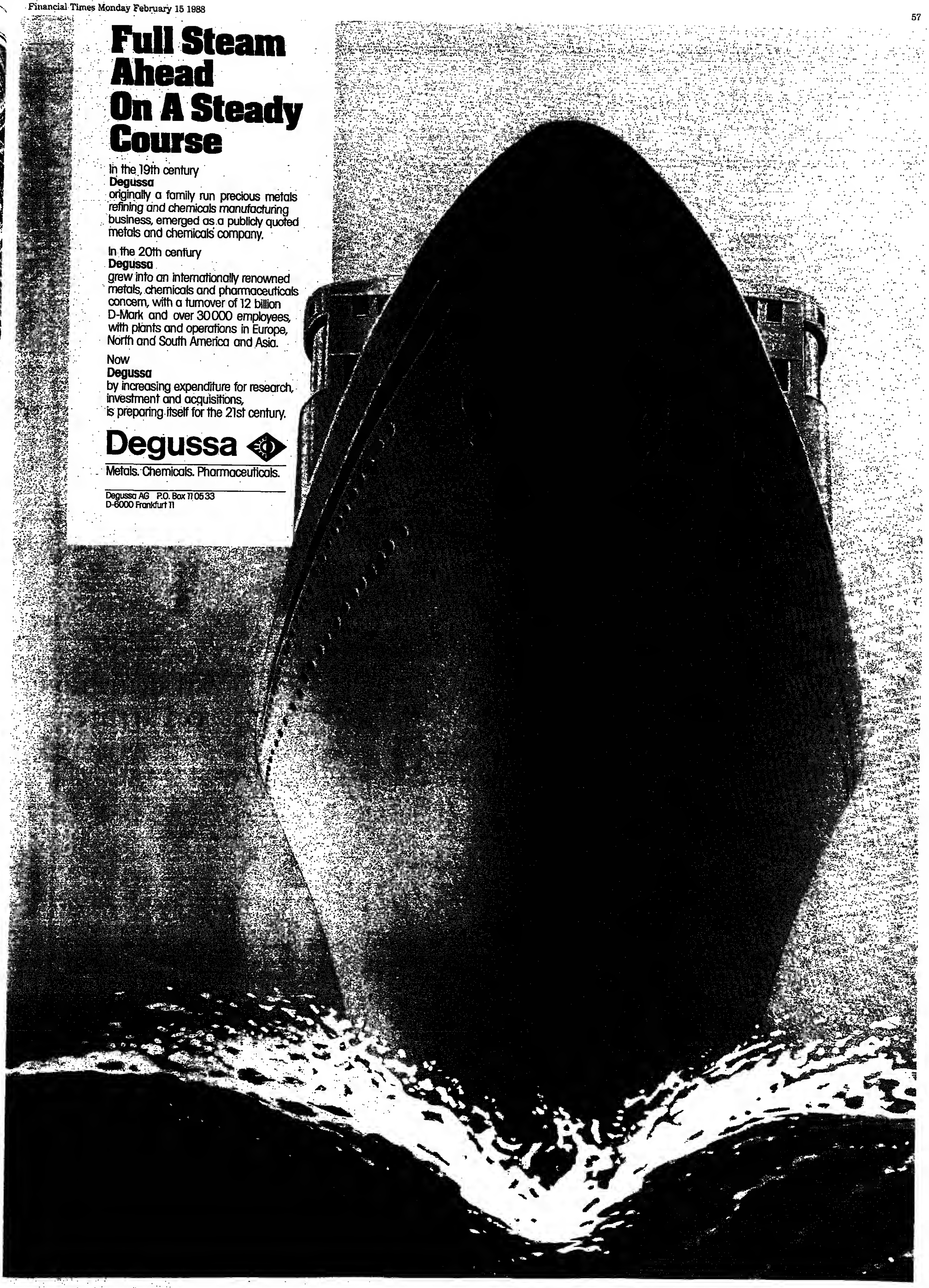
There was every sign, too, that London was succeeding in the goal of strengthening its position as Europe's main capital market, and of developing into one of the world's great financial centres along with New York and Tokyo.

The central question which remained unanswered early in the year was whether the business conditions on which all these changes had been predicated would actually materialise. Would the global marketplace continue to develop and expand, or would the financial shock drive investors and borrowers back behind their own borders, and into their more traditional forms of finance? Would retail business really take off, as private individuals switched their assets away from real estate and bank deposits into securities-type products of one type or another? No-one yet knew the answers.

Meanwhile, in the hit West End play, *Serious Money*, the curtain continued to fall each night on the words of the mournful jobber, Frosby:

"My lovely City's sadly changed.
Sic transit gloria! Glory passes!
Any wonder I'm deranged
Surrounded by the criminal classes."

Trading floor at the new Lloyds


Full Steam Ahead On A Steady Course
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Degussa
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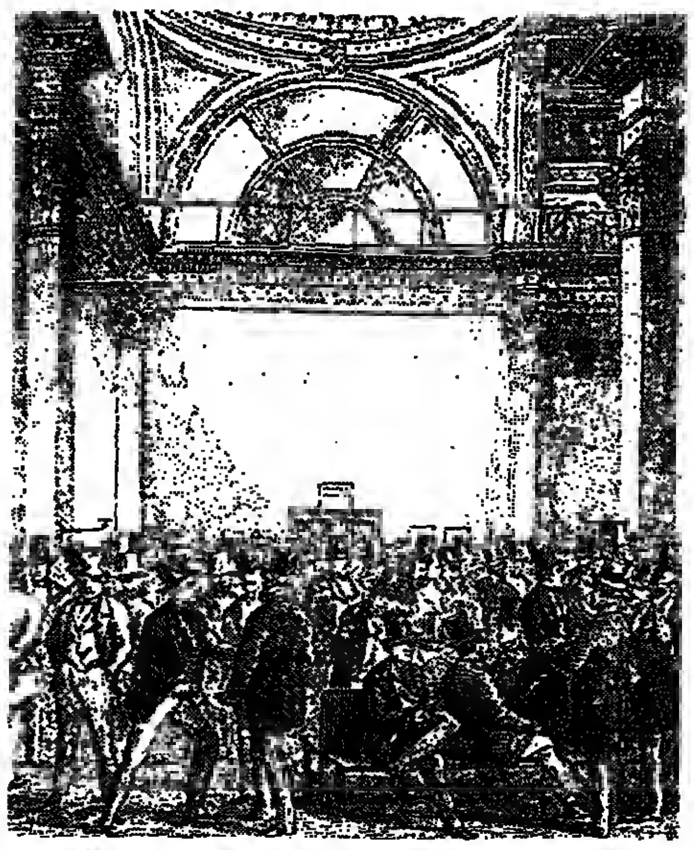
THE FIRST 100 YEARS

A LOOK INTO THE FUTURE

An electronic face for market trading

Alan Cane on how the computer has revolutionised stock exchange dealings



The floor of the London Stock Exchange, a century ago.

Money may be the life-blood of the world's stock markets, but at the heart of the business lies electronic technology. For more than 100 years, the telegraph, the telephone, the television and now the computer have provided the rapid communications and efficient ways of trading which characterise modern stock exchanges.

For many exchanges these days the system which provides traders with up-to-the-minute prices also provides a mechanism for dealing. The US unlisted securities market has no market floor, only a bank of powerful computers and a network of telephone lines connecting the dealers with each other.

The Cincinnati sacurities exchange has even done away with the telephone link, that last vestigial trace of the face-to-face trading of the old days. It is entirely electronic; its members deal from their offices using computer terminals. From the moment they press the "go" key, all the stages in the deal are handled automatically.

Since the "Big Bang" in the London securities market on October 27, 1986, the market floor in the Stock Exchange tower has been virtually deserted as members glued themselves to video screens in their geographically disperaed offices trading over the telephone and using the Exchange's automated quote distribution system, Seaq to keep track of prices.

Smith New Court, largest of London's old jobbing firms, backed both horses, opting to maintain a presence on the floor while laying plans for a swift retreat if that approach failed to prove viable. By Christmas 1986, it had left the floor for good.

Technology made its impact lo the securities markets in three principal phases. Between the 1840s and the early 1900s, the telegraph and the telephone changed ways of trading both in the US and in Europe, although the Old World and the New adopted markedly different attitudes to the new technologies.

Between 1900 and 1960, the use of the telegraph, telex and telephone matured; they were accepted instruments of business.

After 1960, the advent of the digital computer resulted in a new technological revolution in the markets, beginning in the US and spreading to Europe and the Far East. Terms such as "rocket scientist", meaning the mathematicians able to construct massive equations (algorithms) for profitable trading, became common parlance on Wall Street.

These developments have had dramatic and sometimes unforeseen consequences. It is perfectly possible, for example, to program a computer to generate a "buy" or "sell" order when a stock reaches a particular price and transmit that order to another computer to consummate the deal, but the effect on markets may not always be beneficial.

Following the fall in the world's stock markets in late 1987, the New York Stock Exchange has twice curbed the use of this "programmed trading", fearing that it was contributing to volatility in the market. Wrongly, it seems. The Brady commission which investigated the causes of the crash identified portfolio insurance as the chief culprit; banning programmed trading simply made matters worse. Programme trading has not so far been a feature of trading in European or Far Eastern exchanges.

In London, the "Big Bang" catalysed the greatest change in trading technology for over half a century. The expression is market shorthand for three principal regulatory changes all of which took place simultaneously. Minimum commissions for brokers were abolished, single capacity - a clear distinction between brokers and jobbers - was abandoned and outside investment in Stock Exchange member firms was allowed.

It is powerfully ironic that it was technology which forced the adoption of single capacity and minimum commissions in the early 1900s, and technology again which provided the means for establishing an efficient market after singls capacity and minimum commissions were abolished, almost a ninety years later.

Ronald Michie notes in *The London and New York Stock Exchanges, 1850-1914*: "The revolntion in communications that took place in the second half of the nineteenth century with the introdnction of the telegrapb and the telephone was to transform the securities market and to alter fundamentally the role performed by the London Stock Exchange"

The introduction of the telegraph made possible for the first time "shunting", the simultaneous buying and selling of the same security on different domestic exchanges. Profit was made on the fractional differentials that momentarily appeared. It led to the emergence of a small, elite group of shunters able to afford the £2,000 a year charge to rent a private telephone line.

Worried that competition between the domestic exchanges was breaking down and tbat business was being diverted from London to provincial brokers who were able to avoid the expense and responsibility of membership of the London exchange, the authorities largely put an end to shunting by forbidding dual capacity and insisting on minimum commissions.

When the Government in the 1980s insisted this cosy, club-like apparatus be dismantled, it was clear that only technology could provide the mechanism for a market comprising players geographically widely dispersed, all of whom had to have access to share price information at the same time.

The answer was Seaq, a computerised price distribution system modelled on the US over-the-counter Nasdaq, but operated by the Exchange itself.

Built in a rush between 1984 and 1986, Seaq had a spectacularly disastrous debut but has since proved robust and reliable.

Unlike Europe, where communications technology was adopted slowly, reluctantly and grudgingly (the story goes that one London broking house would only allow a telephone to be installed in a downstairs lavatory), US traders took to the telegraph and telephone enthusiastically and with relish.

Michie notes: "In New York there was an immediate recognition that improved communications could aid the business of members so both the ticker-tape (1867) and the telephone (1878) were introduced as soon as they were available".

The opening of the Anglo-American telegraph in 1866 allowed trading between London and New York, especially the development of extensive links between London and New York broking houses for the purpose of arbitrage.

But the modern history of technology in the stock markets goes back only two decades.

There was progress, but it was of a slow and piecemeal nature. In London, for example, in the 1960s most dealers used just two telephones - a direct line and switchboard line.

Private lines operated by a hand cranked generator were still being used in the 1970s.

These gave way to key-and-lamp units and then to "dealer-boards" able to handle a minimum of 40 lines; the most advanced form of this system in use today substitutes a video screen for the physical board. Images of switches on the screen are activated simply by touching them.

Mr William Lupien, a former trader and specialist in market technology, dates the development of new technology in US exchanges from 1968 when a boom in the markets caused an administrative crisis.

Foreshadowing events in the London market after Big Bang, US brokers found their back offices were unable to cope with the volume of trades. Panic measures - the prohibition of soliciting business on Wednesday's, for example, were introduced.

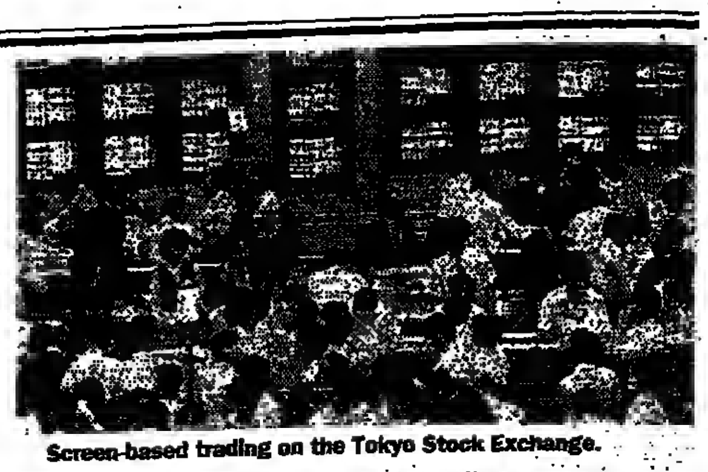
Eventually, the boom altered into a bear market giving firms time to bring the computer systems up to scratch. One firm, Dean Witter, developed a computer program to match deals and customers and put terminals on the floor of the New York exchange.

It was the first step towards fully-computerised deal execution. The Pacific Exchange retaliated by developing a system to automate the odd-lot (1-99 shares) execution process. Now every exchange in the US has some form of automatic execution.

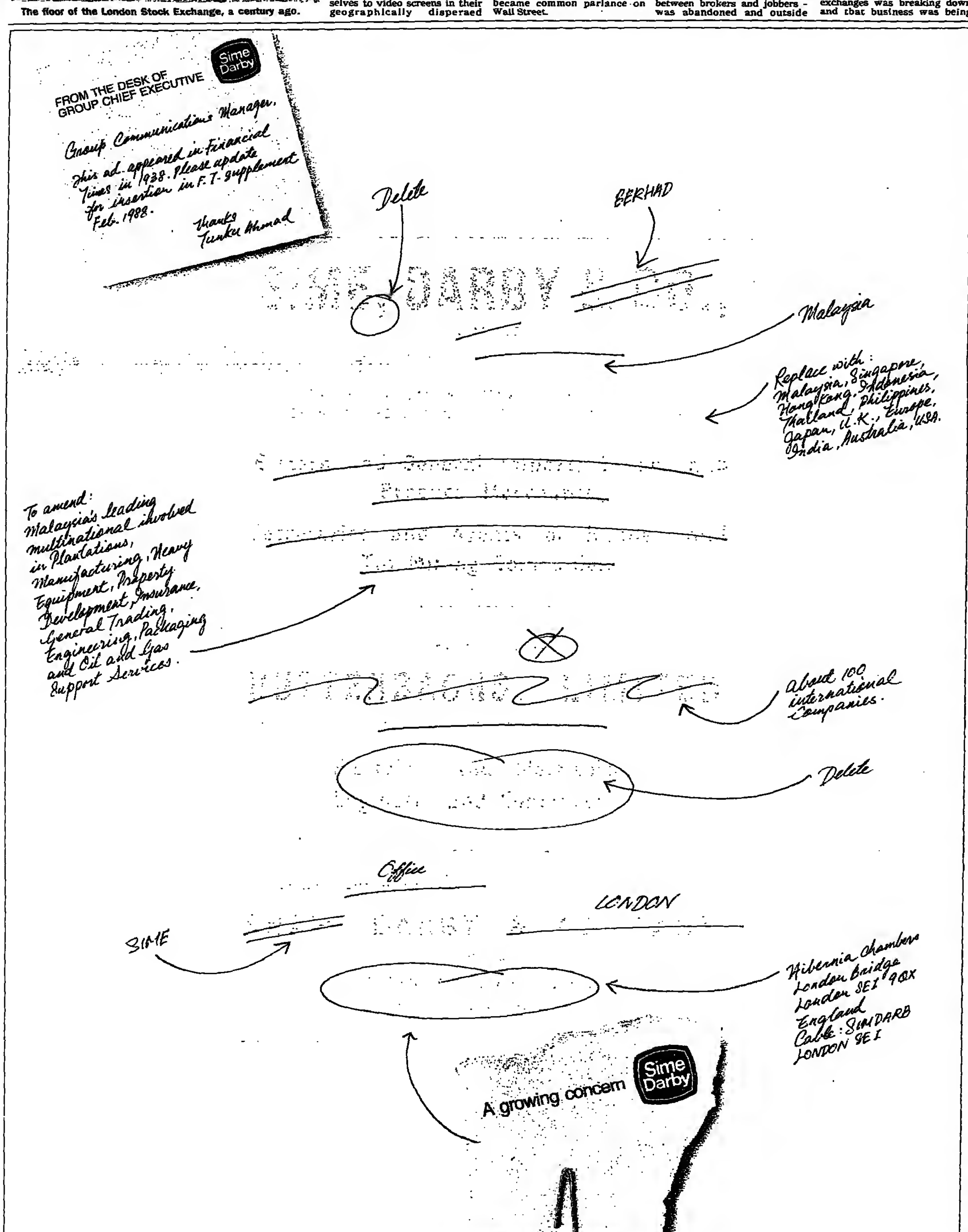
Despite the video screens which cover every dealer's desk these days, many people believe that the use of technology in the securities business is only in its infancy.

Super powerful computers which can search whole markets in a twinkle looking for price anomalies, artificial intelligence systems which can help in decision making and satellite-based information distribution are all technologies which the securities industry will have to take in its stride before long.

As one major US broker remarked: "You cannot afford to be the guy with the second best technology".



Screen-based trading on the Tokyo Stock Exchange.



PROFILE: MORGAN GRENFELL

An emphasis on strategy

David Lascelles traces the fortunes of a 150-year old London merchant bank

WHILE THE FT celebrates its 100th birthday, another City institution is half as old again. Morgan Grenfell, one of the leading names in UK merchant banking, is 150 this year.

Morgan's anniversary could have come at a better time (it is recovering from the turmoil of last year's Guinness affair), but the house of Morgan has weathered many crises in its past, and has proved that adaptability is the hallmark of the successful merchant bank.

The bank dates back to 1838 when George Peabody, a Boston merchant, opened a counting house in Moorgate which came to specialise in securities and finance and led to the establishment in 1851 of George Peabody & Co. In 1854, Peabody teamed up with Junius Spencer Morgan, the US financier who had settled in London, and he eventually took over the bank, renaming it J.S. Morgan & Co.

Although the bank got into loan problems and had to be bailed out by the Bank of England shortly afterwards, Junius Morgan was the man who established the bold traditions and the close links with government which were to bring the house of Morgan fame and fortune. In 1870, he scored his greatest coup when he helped put together a £10m bond issue for the French Government at the height of the Franco-Prussian War. As others sold their bonds, he snapped them up cheap, certain that the French would redeem the issue, which they did in 1873. The house of Morgan reaped a huge profit - and a reputation for financial shrewdness which quickly propelled it to the top ranks of London merchant banks - where it was still a relative newcomer compared to the likes of Barings and Rothschilds.

In 1904, E.C. Grenfell, later the MP for the City, became a partner, and in 1910 the bank changed its name to Morgan Grenfell. It prospered particularly from its close relationship with the Morgan bank in the US which was founded by J.P.Morgan, Junius' son, and owned half the London bank. Together, they combined London's expertise in international finance, and the powerful resources of the US end. This link continued until 1981 when Morgan Guaranty sold its one third stake.

All through the First World War and the subsequent reconstruction, Morgan was closely involved in raising finance for British and European governments, and in the inter-war years it also became a leader in corporate finance. In 1926, it moved to its present premises in Great Winchester Street.

After World War II, Morgan was prominent in the fixed interest market, and worked on the denationalisation of steel. But it lost its edge and went into decline as merchant banks periodically do, losing ground to newcomers, particularly S.G. Warburg. The decline was reversed in the 1970s under the leadership of Sir John Stevens, a former bank of England official, and Mr William Mackworth-Young, who joined from Rowe & Pitman, the stockbrokers.

By bringing in a new generation of bright young corporate financiers and reviving Morgan's aggressive spirit, they pushed Morgan back up to the top again, and into a phase of explosive growth. From a total payroll of only 100 in 1960, the group has grown to nearly 2,000 today. And what was once a tiny partnership was listed on the London Stock Exchange in 1986 as a corporation worth £750m.

> Adaptability is the hallmark of the successful merchant bank

Unfortunately, Morgan's new drive lacked bankerly restraint, and the group was plunged into the trauma of Guinness which led to charges of illegal activity in its corporate finance department, and the ousting of two top executives a year ago.

Morgan now has a new chief executive, Mr John Craven, who wants to make it a leading international investment bank, combining the new securities businesses which Morgan built up for the Big Bang in 1986 with its long-standing expertise in corporate finance and banking.

Dr Kathleen Burk, who is completing an anniversary history of Morgan Grenfell, ascribes its success to three things: the strength of its ties with the US, an ability rare among merchant banks to plot a strategy, and its imprimatur of quality. "As older areas of business began to decline, Morgan repeatedly turned around and developed new ones," she says.

THE EARTH'S RESOURCES

The dangers of complacency

The resources gap has not materialised but other worries remain, says **Max Wilkinson**

Fears that oil would run out fuelled a big search for new supplies in the North Sea and elsewhere. Today potential production is running ahead of demand

THE 1980s have turned out to be a period of unexpected abundance for almost all the natural resources needed in the industrial world. The big question is whether this is producing a dangerous complacency.

Only a decade and a half ago, it was widely agreed that the world was running out of raw materials at an alarming rate. Shortages of most major commodities were associated with a classic cycle of stockbuilding and inflated prices.

Yet despite the large investments which were stimulated by these higher prices many economists believed that the world was approaching a form of Malthusian nemesis in which economic growth would be sharply curbed by the prodigal consumption of raw materials.

The warning was sounded most loudly by an international group of experts calling themselves the Club of Rome in a report called "Limits to Growth" published in 1970. This said that almost all energy, mineral and agricultural resources were in danger of becoming exhausted and that "virtually every pollutant that has been measured as a function of time is in danger of increasing exponentially."

In one sense perhaps, the Club of Rome was proved right. Steady economic growth and declining real oil prices helped to precipitate the oil crisis in 1973 when crude prices quadrupled and the world economy was sent reeling into recession. The stagnation of industrial economies after the oil shocks of 1973 and 1978 reduced demand for a broad range of commodities – not just oil – compared with what was expected on the basis of the growth pattern of the late 1960s.

However, since then the persistence of over-supply of almost all important commodities from wheat to crude has been much greater than most people expected.

By the end of 1986, prices for commodities other than fuel had fallen to their lowest in real terms since the Second World War. Many of the base metals of strategic importance to industry were in huge oversupply. Food production in the industrial world was piling up embarrassing surpluses. In spite of the rapid population increase since the war, the world was producing enough food to eliminate starvation if only the poor had the means to buy the surpluses in the rich men's granaries.

That hectic question of the late 1960s, "when will the oil run out?", has come to seem for the time being an echo from a distant era. Potential world oil production is now at least 10m barrels a day or about a fifth more than free world consumption. Indeed, the potential surplus is so great that even consuming and importing nations have become worried about the consequences of a collapse in prices like that in 1985-86, when the price of crude plunged from more than $30 per barrel to about $8.

But although it was oil prices and the disarray of the Organisation of Petroleum Exporting Countries which hit the economic headlines in 1986, the collapse of prices for some other commodities was perhaps even more spectacular. At about the time that oil prices were testing the depths, world food prices had fallen in real dollar terms to little more than a third of their peak in 1984. Average metal prices were less than half their peak value in real dollar terms.

Last year prices recovered, with the Economist Commodity Index rising 40 per cent in current dollar terms. However, this was at a time when the value of the dollar itself was falling. Studies by the World Bank suggest that commodity prices measured in dollars should rise by about as much as the dollar has itself fallen. This is because a fall in the dollar's value will tend to make commodities priced in dollars cheap in non-dollar countries. The effect will be to stimulate consumption and to reduce the profits of producers in local currencies so that the commodity will tend to become more scarce and therefore somewhat more expensive.

However one of the important puzzles of the last two years is that the weakening of the dollar has not prompted a revaluation of commodities in dollar terms to anything like the extent predicted. Since January 1, 1985 the dollar has depreciated by 50 per cent compared with an average rise in commodity prices of 40 per cent. In real non-dollar terms therefore commodities are substantially cheaper than they were three years ago in spite of the apparent rise in nominal prices.

Although this average conceals some relatively sharp rises – as in the case of copper – it seems unlikely that it is signalling a change from a world generally blessed with an abundance of material resources to a period of renewed scarcity. In the copper industry, for example, the 88 per cent rise in cash prices during 1987 from an exceptionally low level seems to reflect some relatively short-term tightening of world supply and demand as well as the changes in the dollar's value. But there are plenty of new mining projects ready to supply all foreseeable demand at long-run marginal costs which may be higher, but not unmanageably higher than present prices.

Viewed against the background of the declining dollar and the persistent weakness of commodity prices for more than 10 years, the recovery last year can therefore be seen more as a modest correction than as the start of any marked change of trend. Indeed, the World Bank has calculated that for most of the period since World War Two average real commodity prices from foods to metals have been declining at an annual average rate of about 1 per cent.

In view of the finite nature of many of these resources, the steady rise in economic growth and the rapid increase in world population during the period, this appears a surprising result and quite at odds with the commonsense view of the late 1960s. The explanation, it can now be seen, is that man's ingenuity has continued to outstrip mankind's increasing need to consume resources. Although the application of new technologies has been widely different, the same process can be seen to have been at work in many quite separate sectors.

So, for example, the development of better strains and new fertilisers and more efficient farm machinery have doubled grain yields in the UK during the last two decades.

In the mining industry, vast trucks and diggers, and new reflning technlques have greatly redneed the cost of extraction and in some cases have transformed the economics of projects. In the oil industry computerised seismic techniques have in recent years revolntionised the ability of oil companies to identify small deposits of hydrocarbons. Improved drilling methods, particnlarly horizontal drilling from offshore platforms, better ways of "fracturing" or breaking up oil-bearing rocks, injection of chemicals and steam and other techniques are enabling more oil to be recovered from smaller finds.

These widespread improvements to the supply of most commodities have been matched by a revolution in demand which is perhaps even more important. One of the main errors of the Clnb of Rome, it now appears, was to assume that demand for most commodities would rise broadly in step with economic expansion. But this has proved far from the case. As the advanced economies have grown, the proportion of national incomes used for the purchase of energy and raw materials has declined, in some cases dramatically.

This was partly a reaction to the rapid rises in energy prices in 1973 and 1978, which led to economies not just in the use of oil, but also in a wide range of materials related to energy use. Motor cars, for instance, became not only more fuel efficient but much lighter in proportion to their size.

However, the two energy crises only accelerated a trend which was long established as a result of advancing technology. Between 1810 and 1900, for example, the weight to power ratio of European steam locomotives declined tenfold. By 1950, locomotives were delivering another four times the power for a given weight. Then the introduction of electric locomotives brought another phase of rapid improvement so that by 1980 railway locomotives were only one-seventieth of the weight required 90 years earlier to deliver a given amount of power. Similar, though often less dramatic improvements have bsen achieved in many sectors. For example, the high strength steel girders recently used to repair the Eiffel Tower in Paris weighed only a third as much as those they replaced.

More generally, it has been found that consumption of steel and cement per capita in Western Europe has been declining since about 1970 after rising since the war, while the usage of other commodities has been on a flat or declining trend in recent decades. This doubtless reflects the rising importance of computer technologies, which have made possible radical improvements in design

It has therefore become apparent that the earth's natural resources are in some senses less finite than has been supposed in the past, because the ability of advanced economies to do more with less of them is impressive and unpredictable.

Nevertheless, attention has increasingly been focused on other ways in which the exploitation of natural resources represents a potential constraint on economic progress, particularly in the less developed world. The widespread destruction of forests and the erosion of arable land through overfarming are two worrying examples.

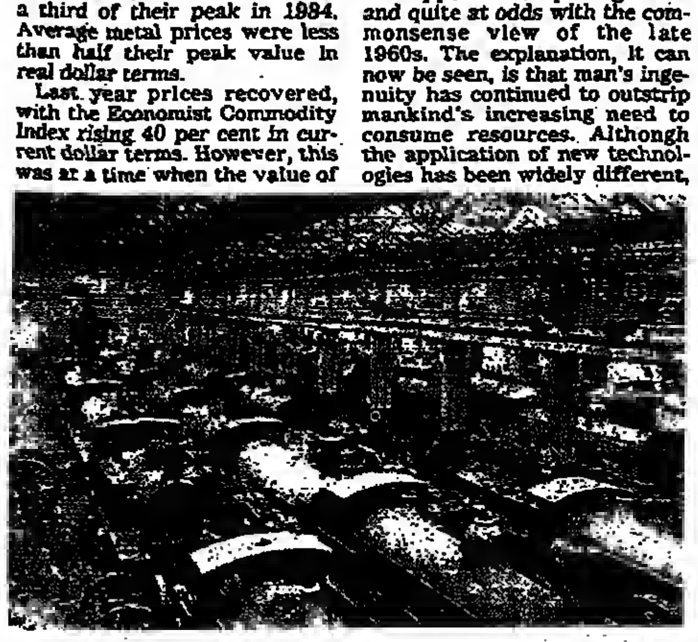
Another, even more worrying possibility is that the consumption of fossil fuels will increase the amount of carbon dioxide in the atmosphere to such an extent that the climate of the planet could be seriously altered. The amount of CO2 in the atmosphere is now more than 15 per cent higher than in pre-industrial times and could double during the next 50 to 100 years. Several studies suggest that this would be enough to raise the temperature of the earth by about 3 degrees Centigrade with potentially devastating consequences.

Although the detailed consequences of these changes is not fully understood, the potential seriousness was emphasised in last year's report of the World Commission on Environment and Development under Mrs Gro Harlem Brundtland, Prime Minister of Norway. This report, called "Our Common Future," made a powerful case for giving much more careful thought to the consequences of economic growth for the fabric of the planet. This, rather than shortages of resources, may prove the ultimate constraint to economic growth – and perhaps sooner than most people have become accustomed to think.

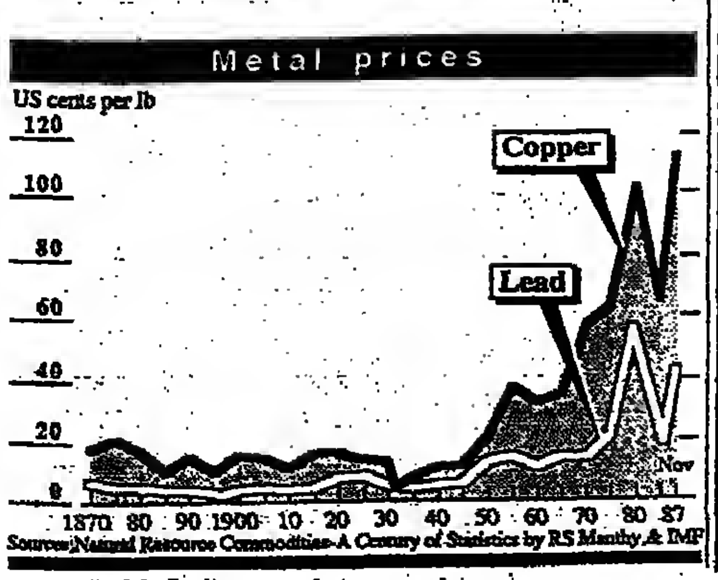
RESOURCES

FINANCIAL TIMES 1888 1988 CENTENARY YEAR

The earth's resources have proved less finite than was once thought. Ill-considered exploitation is having potentially serious consequences, however, for the fabric of the planet.

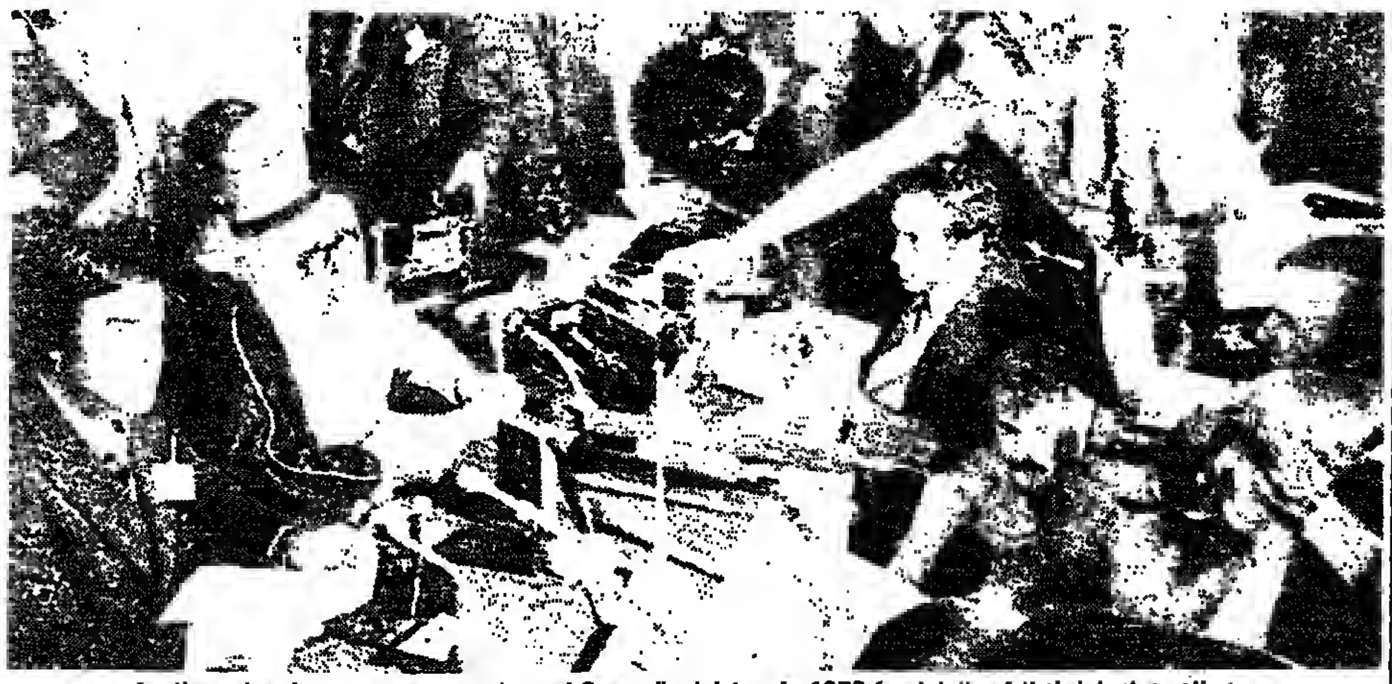


Derby railway works 1888: locomotives now deliver the same power for much less weight



Source: Natural Resource Commodities–A Century of Statistics by RS Manthy & IMF

THE OIL PRICE SHOCKS



Another price rise: newsmen crowd round Opec oil ministers in 1978 for details of their latest meeting

A long learning process

Lucy Kellaway on the difficulties policymakers have had in reading developments

THE OIL market has been constant in one thing only over the last 15 years – it has consistently proved every long-term forecast to be radically, and often disastrously, incorrect.

Again and again forecasters have made the same mistake – projecting the most recent conditions into the distant future. The stability of the 1960s and early 1970s was expected to be maintained indefinitely; the two price shocks of the 1970s were quickly interpreted as a prelude to ever-rising oil prices as a result of perceived oil shortages; whereas the more recent fall in the oil price and corresponding fears of a glut of oil have created the expectation that oil prices will remain moderately depressed well into the next decade.

This kind of complacency has had two unhappy consequences. It has helped create further instability in prices as long-term investment capital has frequently been committed on the basis of an upside-down view of the future. It has also ill-equipped the world to cope with a series of wild swings in oil prices, which have moved from $3 a barrel in 1970 to almost $40 a decade later, to $8 in 1986 and back to about $18 at time of writing.

The effects of these movements have in themselves been unpredictable. The first two major oil shocks turned received economic wisdom inside out by causing inflation and recession simultaneously. The reduction in growth, as consumers in oil-importing countries saved more, was compounded as governments cut spending in an attempt to tackle inflation.

However, the corresponding increase in growth rates that should have resulted from the fall in the oil price never materialised. Stricken oil companies and Opec members cut back their spending at once, whereas Western governments were more inclined to use any windfall to reduce deficits than to spend more.

Three major adjustments and scores of minor ones over the last 15 years have taught the world a little about preparedness. Large strategic oil stockpiles have been built up by Western governments over the last few years to dampen the effects of any future interruption in oil supplies. Bankers, meanwhile, have learnt to extend loans on the basis of a more circumspect range of oil price forecasts; industrial companies have installed plant which is able to switch from one fuel to another, whereas oil companies themselves are gradually beginning to ignore today's oil price and keep their eyes more on the future.

Yet no amount of preparation is likely to change the nature of the oil market, which has a high propensity for crisis. Over the last 15 years, the political background to the oil market has been chronically unstable. The Arab-Israeli war and the Iranian Revolution were the immediate causes of the oil shocks of 1974 and 1979, while eight years of war between Iran and Iraq, the continued squabbling between the producing countries, and the changing policies of consuming countries have each added their own brand of instability.

Given the explosive mix of political whim on one hand and a long and unbalanced investment cycle on the other, it is not surprising that oil prices have proved so volatile. Yet even without either force, the oil market would probably have delivered more than its share of surprises over the period. Despite its major role in the world economy, oil is still a young industry, and one which only now appears to be settling down after two decades of enormous structural change.

Twenty years ago there was no oil market to speak of. The major oil companies owned more than 60 per cent of the non-communist world's oil reserves, which they refined and sold to end customers. A small proportion of crude oil was delivered to third parties at a price laid down by the majors according to long-term contracts.

In the early 1970s, the picture was redrawn by the emerging Organisation of Petroleum Exporting Countries. The 13-member group of oil producers re-nationalised their reserves, thereby cutting the majors' ownership of world oil to less than 20 per cent. The Seven Sisters were no longer in control: the price of oil was whatever Opec said it was.

During this decade a new force has emerged: the oil market. The reshuffling of ownership brought opportunities for oil traders to reconcile individual companies' surpluses and deficits of oil. Over the last five or six years the importance of the market has grown exponentially, spawning futures and options markets and bringing in the Big Guns on Wall Street in search of speculative profits.

Now as much as twice the daily volume of world oil consumption of oil is traded on the oil futures markets in New York, and Opec has discovered itself no longer able to fix a price if it goes against the sentiment of the capricious oil trader. Two years ago, when Opec abandoned its output controls and the price of oil plummeted, the full control of the oil price seemed to have passed to the free market. However, the transition is still not complete – as traders discovered to their cost in December 1986, when an unexpected return to fixed quotas increased the price by 60 per cent within a day. The industry is now faced with an awkward balance, with Opec's behaviour determined by the market, and the market's behaviour driven by Opec.

This fundamental shift in power from the majors to Opec, and from Opec to the oil market has meant that the oil industry, policy makers, oil consumers, and Opec itself have all been in a continual process of learning.

In the process they have made far more mistakes than scored triumphs. One of the most fundamental has been the failure to predict how either demand or supply would respond to changes in oil prices. In the 1960s, oil demand was assumed to be on an ever-rising curve, tied to economic growth but unrelated to the price of oil. Supply was similarly thought to depend more on geological and technical than price considerations.

With hindsight it is not in the least surprising that a 10-fold rise in the oil price in a decade should have caused a revolution in both supply and demand. But in 1979 Opec did not see it that way, and stuck blindly to its policy of maximising prices, all the time paving the way for its eventual downfall.

By 1983, energy demand was 13 per cent lower than four years earlier, whereas demand for oil had fallen by almost 20 per cent. At the same time the industry was pouring money into oil (half a trillion dollars was spent in 1980 and 1981) with the result that large non-Opec supplies were coming onstream in the North Sea, Alaska and Mexico. In 1979 Opec was producing 59 per cent of the world's oil, whereas by the mid-1980s its share had sunk to less than a third. If it was to continue to maintain prices it could only do so by reducing its share of the market still further. When, at the end of 1985, it decided instead to defend its market share, the price went into free fall.

The rise in demand bought about by that collapse also came as a surprise in both its extent and its timing. Almost at once, people started to use more oil, and within 12 months demand was almost 4 per cent higher. At the same time oil companies cut back expenditures at once, and in the US production fell by about 1m barrels a day as many of its smaller wells became uneconomic.

This improvement in the balance between demand and supply formed the basis for an administered price rise to about $18 – at which the price of oil is for once roughly equated with the cost of buying new supplies.

With characteristic complacency the industry hopes that the present status quo will be maintained. But if the past is anything to learn from, it is almost sure to be wrong.

OIL CONSUMPTION OUTLOOK

The seeds of a new crisis

Western nations may soon find themselves dependent again on Opec, says **Max Wilkinson**

IT WOULD have been considered a very bad joke 10 years ago to suggest that the US Administration would become a supporter of the oil producers' cartel. Now their common interest in holding up the price of oil is almost a truism.

Back in 1978, in the run-up to the second oil price shock, the Organisation of Petroleum Exporting Countries was considered a major economic enemy, and in the eyes of many Americans, a diabolic one.

It had pinched the arteries supplying Western industrial society with its most vital fluid, sending the world economy into a profound shock from which it has still not entirely recovered. Few in the West then recognised that the economic arguments behind Opec's price rises were soundly based, no doubt because of the panic caused by such huge increases and the political bitterness which surrounded them.

Yet even before the first price shock in 1973, it was becoming obvious that the 10-year trend of declining real oil prices was unsustainable. This incorrect price signal was promoting a profligate use of oil while minimising the incentives for oil companies to find more sources of supply.

The construction of large oil fired power stations, and large gas-guzzling cars were just two developments which kept the rise of oil consumption roughly in step with general economic growth in the developed economies. Since conventional oil is a finite resource, it is clear that in the long run, the price must gradually rise in real terms as it becomes scarcer.

A rise in real oil prices during the period would have reduced the power of Opec in 1973 by curbing demand, promoting exploration and increasing the economic incentives to find alternatives. Much of the panic which followed the two oil shocks resulted from a gross under-estimate of the power of the price mechanism to change the behaviour of consumers and of oil companies.

This is not, of course, to defend the Opec price rises which were wildly excessive, motivated by greed and in important ways, self-defeating. Nevertheless, after decades of complacency, perhaps the world needed to be shocked. The changes which resulted after 1973 and 1979 have confounded much of the energy analysis of the early post-war years and raise some highly important questions for the future.

A recent study* by the World Resources Institute, a Washington think tank, points out that in the 12 years after the first price shock, total energy consumed by the industrialised world fell by 6 per cent while per capita output rose by 21 per cent. The US economy was able to grow by 30 per cent between 1973 and 1986 without any additional consumption of energy, a result which would have seemed incredible to most energy economists a decade earlier.

Oil consumption in the countries of the Organisation for Economic Co-operation and Development fell by 15 per cent or 6.1m barrels per day during the period, helping to push demand for Opec's oil down from its peak of 31m b/d in 1977 to only about 17m b/d now.

Despite these economies in the demand for oil and the major developments of new supplies, particularly from the North Sea and Alaska, the US is being forced to face the fact that it will become increasingly dependent on Opec for its oil supplies. Since two-thirds of the free world's proved and probable oil reserves are in the Opec countries, this is true for all the Western consuming nations.

However, the US, which had grown accustomed to being the world's major producer over many decades, is confronting the change with special unease. Its largest field at Prudhoe Bay on the North Slope of Alaska is now moving into a slow period of declining production, while exploration efforts in the lower 48 states have for some time shown diminishing returns.

The collapse of prices from around $30 per barrel to $8 in 1986, after the disintegration of Opec's price and production discipline, had a particularly strong effect in the US, because of the significant amount of production from high cost "stripper" wells, typically using a single "nodding donkey" pump. As pumps broke down, small-time operators found they were not worth repairing at prevailing prices.

In February 1987, the US Department of Energy published a report# reflecting this anxiety which concluded: "Lost in the public's euphoria over lower energy prices and complacency with the current world oil surplus are the seeds of a return to the crisis conditions of the 1970s. The continuation of lower prices has already contributed to increased consumption and reduced domestic production from existing wells. More importantly, the continuation of depressed prices and the prospects for continued softness have drastically curtailed domestic drilling and exploration activity, undermining the ability of US producers to meet future energy needs."

The report went on to say that continued low prices would "create great concern about US national security – from the standpoint of defence, diplomatic options, and the economic well-being of the American people."

Simply put, the thesis was that when non-Opec oil runs out during the 1990s, economic power will return to the Opec countries, and particularly to the Gulf states, and they may well use it for their own advantage. Although the report was stronger on analysis than prescription, most of its solutions – more exploration, more development, more conservation – would be helped by stable, if not higher, prices.

Two large questions underlay this report and most other recent studies on the global energy balance: how much oil remains to be found? and where will the world's petroleum come from when the oil starts to run out? Both questions are relevant not merely to the far-off future but to the economic power which Opec can expect to wield for the rest of this century.

Despite the oil companies' success in finding new large fields in the mid to late 1970s, a consensus is growing that few, if any, very large accessible deposits are left to discover, outside the Middle East and the Communist countries. Although oilmen are professional optimists, the more cautious view is based on recent great advances in computerised seismography and the extensive exploratory drilling of the last 15 years. Explorers have looked in nearly all the likely places.

On the other hand, advances in technology have recently been yielding substantial improvements to the estimated amount of oil that can be recovered from in and around existing fields. Moreover, although new oil discoveries have been disappointing, natural gas and coal appear to be more abundant than was previously thought. Proven gas reserves doubled between 1950 and 1960, then doubled in the next decade. Over the past five years proven gas reserves have increased by a third.

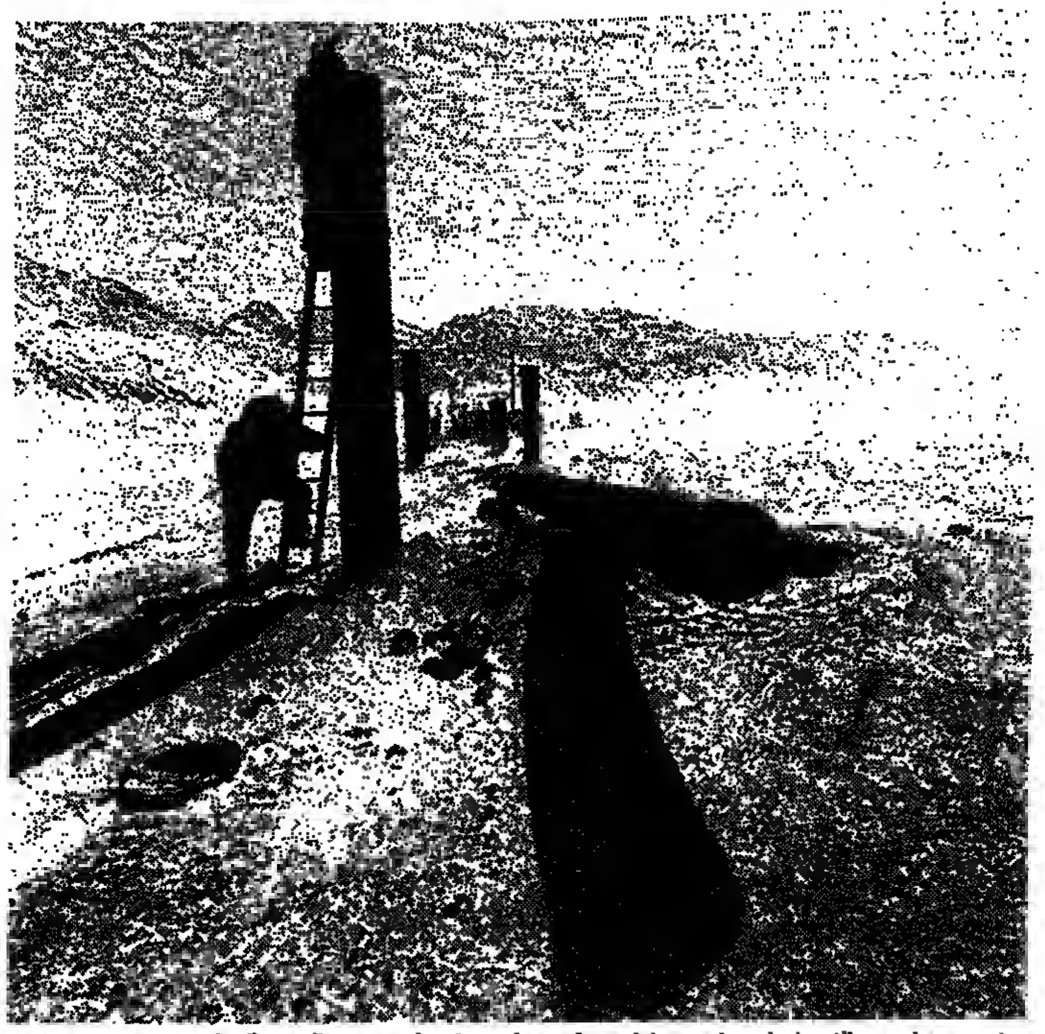
A study§ by the World Energy Conference suggests that at current consumption rates proved and additional gas reserves will outlast the next century, although reserves may not be conveniently located for consumers. The same study predicts that world coal reserves will last for well over 1,000 years at present consumption rates.

In addition, heavy tar sands and abundant sources of oil in shale rocks could fill the gap - at a price. What price?

Nobody can be sure, because, for example, the environmental costs of extracting shale oil could be very high. However, the two largest oil companies, Shell and Exxon, both believe that alternative sources of petroleum distillatea could become economic at $40 per barrel or perhaps less.

Whether these alternative sources of the vital fluid will prevent the world from suffering another oil shock will depend partly on what happens to oil prices during the next few years. If a sustained period of weakness were to reduce oil companies' cash flow and their incentives to spend money on "exotic" research and development, while consumers scaled back energy conservation measures, then the next price shock might be as violent as the last.

It is one of the main arguments of those who support an oil import tax to maintain prices at around the 1987 level of $18 per barrel. This, it is argued, is about the right price because it is close to the long-run marginal cost of finding and developing new oilfields outside the Gulf. For free marketers, the idea that oil prices should be maintained by US protectionism is almost as repugnant as having it set by an international cartel.



The trans-Alaska pipeline: oil companies have been forced to explore in hostile environments

* *Energy for a Sustainable World by Jose Goldemberg, Thomas Johansson, Amulya Reddy and Robert Williams (World Resources Institute, 1735, New York Avenue NW Washington DC ($10).*

Factors Affecting US oil and Gas Outlook, report of the National Petroleum Council, Feb 1987, US Department of Energy.

§ *Future Stresses for Energy Resources by J-R Frisch, World Energy Conference, Conservation Commission, Graham and Trotman.*

Pre World War II Advertisement

REACTOR TECHNOLOGY

Co-operation emerges out of accident

Chernobyl has brought scientists from East and West together, says **David Fishlock**

IN AUGUST 1986 a Soviet nuclear scientist stood before 500 of his peers at an international conference in Vienna, to explain what had happened four months before at Chernobyl in the Ukraine. For five hours he described and showed film of events before, during and after the world's worst nuclear accident.

So impressed was his audience from 45 countries – many of which received fall-out from the explosion – with the speaker's detail and candour, and the frankness of his apparently spontaneous asides, that they clapped when he ended his report of an accident which killed 31 Soviet citizens.

Academician Valery Legasov, a radiation chemist little known in the West before Chernobyl, told how the operators of the No 4 reactor at Chernobyl power station near Kiev had wilfully flouted standing orders. For 24 hours before it finally exploded they had run the reactor in an erratic and unstable manner, with safety systems switched off.

The Soviet accident report showed how the reactor had "accelerated" from a small fraction of full power to 100 times its full-power rating in just four seconds. An astonished audience learned for the first time that the unique Soviet RBMK reactor is safest when running at full power and very unstable at low power.

The operators had deliberately sought to run the reactor at low power, in a regime its designers had known was dangerous, but believed could be accommodated simply by issuing instructions saying "keep out."

> There are numerous ways of permutating the ingredients of a controlled nuclear fission reaction

Soviet confidence in its own nuclear operators did not extend to those of its Comecon partners, however. The RBMK, although first operated as an experimental power-producing reactor in 1954 – even before Britain's Calder Hall reactors – was never offered for export.

There are numerous ways of permutating the three essential ingredients – fissile fuel, moderator to slow its neutrons, and coolant to carry away the heat – of a controlled nuclear fission reaction. H G Wells anticipated this diversity, even before the science was explained, in his novel *World Set Free* (1914). He wrote of four different designs of nuclear engine developed in four different countries, and of fierce rivalry between the inventors. He forecast the first in 1953.

In fact, in the 1950s nuclear research centres such as Harwell in Britain produced conceptual designs for dozens of reactors, for many different purposes, mostly using uranium fuel. Most were abandoned not because they would not work but because they failed in some vital characteristic, almost always safety or economics.

The first and most powerful incentive to develop reactors was not electricity generation, which many experts (such as Prof Simon, page 19) saw as at best a long-range goal. The big incentives were military advantage – both as a source of plutonium, a nuclear explosive made by transmutation, and as a powerplant that would transform the low-endurance submersible warships of World War 2 into truly submarine vessels.

The ideal characteristics for these two goals are quite different. A plutonium furnace needs frequent changes of fuel. A submarine reactor must be compact and robust, able to survive battle conditions, controllable from low to peak power. It must present no special dangers to crew who will live with it for weeks on end, nor leave a trail by which an enemy might locate it.

In the event, the reactor concept which today drives (through steam turbines) several hundred nuclear submarines is also the one most widely accepted a source of electric power competitive with fossil fuels. The pressurised water reactor (PWR) is the most highly perfected reactor technology.

But it took time to reach perfection – albeit far less than many expected after the war. The simpler technology of the plutonium furnace was also refined into power-producing reactors, for Britain's Magnox and advanced gas-cooled reactors, and for Russia's RBMK. Urgent need for nuclear electricity led the USSR to plan about a score of 1,000 MW RBMKs while they learned the trickier manufacturing technology needed for the PWR.

The RBMK designers were alive to the dangers of their reactor. They were also aware of the limitations of Soviet automation. They placed greater faith in operators obeying the government's instructions than in automatic systems for shutting the reactor down.

Unlike that of the West, the Soviet nuclear community was very secretive, exchanging relatively few technical ideas internationally. The USSR was a founding member of the International Atomic Energy Agency in the 1950s, but belonged mainly to pursue its unquestionable concern for preventing further proliferation of nuclear arms.

The Soviets exposed none of their reactor technology to international scrutiny and criticism, as was common in the West for reasons of national and commercial rivalry and a shared interest in safety. Critics of Western nuclear reactors, on the other hand, never found fault with the Soviet systems.

"He's laying it all out. He's admitting faults in design, in training, in Soviet safety philosophy," an astonished British delegate cried at the opening of the conference on Chernobyl. Prof Legasov had explained how designers of the hapless RBMK had perpetrated a "tremendous psychological mistake" in failing to foresee that its operators might one day make deliberate errors and violate the rules. The reactor, he admitted, was touchy, easily perturbed under certain conditions, and crucially dependent on adherence to written rules.

Today, almost two years after the explosion, three of the four 1,000 MW reactors at Chernobyl are running again at full power. The station has been scrubbed free from fall-out. No 4 reactor is entombed in a steel-and-concrete sarcophagus constantly monitored for radiation leaks.

From the outset Moscow made it plain it had no intention of abandoning the RBMK; it needed its power too badly. But it announced modifications to both reactors and fuel which would prevent it ever again running amok, although these would raise the cost of power substantially. Western experts believe these changes eliminate the fatal design flaw which made the explosion possible. The Soviets have said they will be building no more RBMKs.

They have also agreed to cooperate with the West in what, it is hoped, will be a self-auditing process encompassing all the world's nuclear electricity companies. The Soviet Government has joined the newly-created Association of Nuclear Operators, which with the IAEA's blessing aims to agree worldwide on what is best nuclear operating practice and implement it in every nuclear station.

This spring senior Western reactor operators will pay their first visit to Russian reactors.

Britain's early reactors at Calder Hall

THE NUCLEAR ROLE

The mystique is blown away

The nuclear industry is still the safest of all large-scale sources of energy, says **David Fishlock**

THE CHERNOBYL explosion caused many who previously had accepted nuclear power as an economic complement to traditional fuels to question the cost in human damage. The scale of events was comparable with the theoretical "maximum credible accident" which opponents of nuclear power held was too high a price for mankind, but proponents said would never happen.

The proponents, however, had based their judgment on Western reactor designs and were not privy to Soviet safety philosophy. Even so, Chernobyl caused far fewer deaths than the tens of thousands forecast for a maximum credible accident. In fact, the accident has not undermined the nuclear industry's claim to be the safest of all large-scale sources of energy. Most of the 31 "prompt" deaths were among firefighters exposed to fires started by incandescent nuclear fall-out. None has been reported among the public.

Three disasters involving fossil fuels during the 1980s have produced bigger death tolls: the collapse of the Alexander Kjelland oil rig in 1980 (123 deaths), the explosion of an oil-fired power station in Caracas in 1982 (98), and the explosion of a liquefied petroleum gas store in Mexico City in 1984 (600).

Since Chernobyl only one nation, Austria, has wholly rejected nuclear power and said it will scrap its one station, unused. Even so, Austria continues to import nuclear electricity from neighbouring states.

Sweden, some 50 per cent reliant on nuclear electricity, has restated a previous commitment to abandon it all by the year 2010. Italy has shelved ambitious plans for a nuclear power programme. West German power companies are under strong political pressure to phase out their use of nuclear power, which provides about 30 per cent of the nation's electricity.

France, some 75 per cent dependent and exporting to several neighbouring states, remains staunchly in favour of the energy which has made it independent of Opec politics. Britain, less successful at building nuclear stations, nevertheless in 1987 returned to power with a big majority a government committed to an expanding nuclear programme. Japan, too, remains fully committed.

After Chernobyl, the Soviet Government said bluntly it would not abandon the flawed RBMK reactor, much less abandon nuclear power. In 1986 it faced a serious power shortage, with 4,000 MW at Chernobyl out of action, and all RBMKs expected to be down-rated to make them safer.

The US, with far more nuclear power than any other nation – over 100 plants in operation – quickly lost interest in Chernobyl once it knew that the fall-out had settled beyond its own shores. The US public and politicians still regard their own Three Mile Island accident in 1979 as the most serious, even though the amount of radiation released compared with Chernobyl, or even with Windscale in England in 1957, was small. And Chernobyl released less radiation than the atmospheric weapon testing between 1945-62.

Nuclear power is a truly international invention in which scientists and engineers from most countries in Europe as well as the US participated. German scientists first split the uranium atom. France first patented a nuclear reactor. The Italian Enrico Fermi first made one work.

For four decades since atomic bombs fell on Japan, nuclear power has been portrayed by critics as something governments deliberately prevent ordinary mortals finding out about. In fact, nuclear power is no more mystifying than how aircraft fly or the immune system works. Many who constantly cry "conspiracy" might be surprised to learn how much of the story was revealed back in 1945, soon after the bombs, in a book* by Professor H.D. Smyth, authorised by the US Government. It begins: "The ultimate responsibility for our nation's policy rests on its citizens and they can discharge such responsibilities wisely only if they are informed."

Opponents of nuclear power have long recognised the consummate value of trying to maintain an air of mystery and of repeating the charge that much is still being concealed from citizens. This is a charge that is hard to refute effectively; as difficult as governments find it to deny that their territory is regularly visited by UFOs from other worlds.

With nuclear power it could be used to sustain the allegation that great danger for all mankind lurks behind all plans to harness the atom, unheeded by politicians and industrialists bent only on having its awesome power in their grasp. The charge stood while the industry was free from any accident of any serious consequence, and critics could point only to nuclear weapons. In fact, for half a century from its origins early in World War Two the nuclear industry has remained remarkably free from fatalities for one which today generates 16 per cent of the world's electricity – more electricity than the entire world was generating in 1955 – and provides 50 per cent or more in such countries as France, Sweden and Scotland.

With Chernobyl the industry at last lost its mystique. Indeed, Chernobyl took the lid off nuclear power in a very literal way. What people saw inside the blazing reactor was certainly a horror, but one of a magnitude to which they are well accustomed. Mistakes made at sea since the accident have had far more deadly consequences, while the spread of Aids could have a far more pernicious impact on society in decades to come.

Engineering of every kind makes its progress through difficulties and failures. Many engineers keep on their desks some example of a part which has broken in service, as a reminder. Hard economic facts oblige engineers constantly to strive to use their materials more economically, to get more out of each part. Most industries try to ensure against failure by testing full-scale before putting a new design into service. Aircraft and their engines, for example, are nowadays always tested full-scale. Nevertheless, aircraft – and even spacecraft – still sometimes fail in service.

"The trouble with the nuclear industry is that it does not have enough accidents," a Rolls-Royce director remarked at the time of the Three Mile Island accident in 1979. "The aircraft industry has a lot of accidents and we learn from every one."

Even so, a British parliamentary select committee reporting just before Chernobyl happened was demanding a "Rolls-Royce solution" to the problem of disposing of nuclear wastes.

The nuclear industry and governments which give it their support are putting their faith in events at Chernobyl bringing home more vividly to people just how illogical some demands can be compared with hazards the public will tolerate in any other walk of life. If "absolute guarantees of safety" were demanded of airliners or spacecraft, no-one would ever take off. Rolls-Royce solutions are not luxurious designs but highly pragmatic compromises between safety and economic reality.

When judged by such standards there are successes and failures among the 416 electricity-producing reactors in 26 countries. Mostly, it is the failures that make the news.

Atomic Energy by H.D.Smyth, 1945.

CLIMATE

Hard lessons to learn

Crispin Tickell explains past weather patterns and the need to plan for future change

The late 1880s saw the start of a global weather change. Above, Londoners skating in St James' Park in 1895.

CLIMATE IS CONSTANT only in its inconstancy. Yet that is a lesson only recently learnt. A hundred years ago people grumbled as ever about the variations of the weather, but most assumed without thinking that climate was in every place a fundamental of its condition.

This was a forgiveable illusion. By coincidence the weather of the 1880s was similar to that of a hundred years before when records first began. Then as now people were genetically programmed to notice only the relatively small changes which take place during the span of a human life.

In most minds, time was anyway compressed, and the past was measured in thousands rather then millions of years. But the new thinking about evolution was stretching it out. By the mid-1860s the theory of ice ages had been broadly accepted, and by 1875 geologists had completed the first maps of what the world had then looked like. But it all seemed unimaginably far sway and to many the only climatic event of historical importance was the Flood and the mooring of the Ark on Mount Ararat.

A hundred years on things look very different. With the help of better records and instruments, we know how climatic trends developed between then and now. The 1880s saw the beginning of a period of slight global warming which reached a peak around 1940. If it went largely unremarked, it was perhaps because people shout less about easier than difficult conditions, and things seemed better, with warmer winters in Europe and North America, and more regular monsoons in India and West Africa. Then the trend changed. For twenty or more years it became cooler with sharper winters and summers, and by the 1970s high variability was the main feature, with regional swings in different directions. Our present decade has seen continuing variability with a resumed warmer trend. 1980, 1981 and 1983 were the warmest years out of the last hundred, and five out of the nine warmest years in that period were after 1978.

Yet the changes in climate so far have been less significant than the changes in our mental attitudes. We now know that we live in an interglacial period, and that the last glacial spasm- one out of around 17 reaching back over more than two million years - ended only 10,000 years ago, less than a tick of the geological clock. The next spasm should begin around 2,000 years from now and should reach a peak of intensity in 20,000 years.

We have traced the curves of change over the last few thousand years, and can see their relationship to human society and civilisation. Nothing illustrates more clearly how vulnerable we are to the blips in the weather machine. For those who live in the frontier areas between the tropics, the deserts, the temperate regions and the poles, the smallest change can mean bonanza or calamity.

In the bone-dry middle of the Sahara Desert are cliffs with rock paintings of hippopotamuses of seven to eight thousand years ago, a more eloquent statement of change than any from Ozymandias.

Today we face a combination of hazards unknown in the past. The activities of our animal species in changing the chemistry of the atmosphere and the character of the land surface of the earth could lead to a measurable increase in global surface temperatures in the next few decades.

The reasons are well known. The amounts of the so-called greenhouse gases in the troposphere - especially carbon dioxide, nitrous oxide, methane, ozone, chlorofluorocarbons - are increasing. If current trends continue the combination of these gases could cause an increase of between 1.5 C and 4.5C, possibly within the next 30-40 years.

The regional effects of this global increase would be varied, but it seems that warming and precipitation would be greater during late autumn and winter in high latitudes than elsewhere; there would be more dryness, particularly in summer, over the continents of the northern hemisphere, particularly in middle latitudes; and there would be more convective rainfall in most tropical areas. There would also be an increase in sea levels by between 20 centimetres and 1.4 metres.

Of course there can be no proof. But for our species, as for other species and forms of life, the problem is not whether the world is to become cooler or warmer. Living things have adapted to colder or warmer conditions countless times in the past. Some have flourished; some have perished; most have adjusted themselves.

The central problem is easily stated. It is change itself: its speed - and closely linked with it - the capacity of our individual species in its multiplying numbers to adapt itself to a new environment.

Obviously we should like to know what will happen, and when; whether it will be good or bad; and what should be done about it. At present there are virtually unknowable chains of causation. Sometimes changes are self-correcting; at other times they accentuate themselves. No-one yet knows the effects of the drastic changes we are making to the surface of the earth, not only deforestation and the advance of deserts, but also the creation of cities and the spreading areas of concrete.

Warming would certainly be good for some countries, at least in the long-term. Likewise an increased concentration of carbon dioxide should theoretically improve certain crop yields, and thus agricultural production. But more would be disadvantaged than advantaged.

Climatic problems would greatly add to stresses caused by such existing problems as population increase, soil erosion, mismanagement of water resources, pollution of land, sea and air, threats to health arising from pesticides, chemicals and pathogens, loss of species and genetic resources, and the numerous by-products of the ways by which we produce energy.

The effects of a rise in sea levels could be dramatic. Existing coastlines, deltas, estuaries, river systems and even underground aquefers of fresh water would be affected. The cost of work to protect low-lying areas worldwide, including ports and industrial plants, would be astronomical.

What can be done about it? The first and most obvious requirement is greater knowledge. We already have a World Climate Programme with four research programmes, and the continuing work of the World Meteorological Organisation, the International Council of Scientific Unions and the United Nations Environment Programme.

There are also national programmes, notably in the United States, the Soviet Union, Canada and Britain. If governments are to understand how serious the problems could be, and eventually to take decisions on them, they will need a clear identification of the signs of warming, a better idea of the consequences in key areas, understanding of the sensitivity of different agricultural systems, and a precise evaluation of the effects of a rise in sea levels.

Public awareness has increased. Witness the reaction to the related issues of acid deposition and ozone depletion. In the case of acid depletion the dying of millions of trees and the poisoning of lakes has made a real impact.

More remarkable, because the effects are invisible, has been the reaction to news of the depletion of the ozone layer. Ever since the discovery of ozone holes over the Antarctic by the British Antarctic survey in 1985, concern has been intense. Some vested interests resisted action. But the result was the Montreal Agreement of September 1987 to limit production and use of chlorofluorocarbons. It is an important precedent.

Obviously work to limit and mitigate the effects of a climatic warming must be international with national governments in a sustaining role. We might consider a distinguished body of political as well as technical character to do three things: to draw up an inventory of the causes of warming and the possible remedies; to draw up a code of good international behaviour; and to examine the possibility of a network of agreements which might sooner or later have more binding characteristics.

The main responsibility for carrying out any plan of action would rest with individual governments. To them would also fall the responsibility of coping with the effects of the likely warming. Governments cannot do more than indicative planning over periods of decades, and rely heavily on individuals and natural market forces.

Millions of trees in Britain were destroyed during "the storm of the century" in October, 1987.

But public investment on the scale likely to be necessary has long lead times, and work on what to do may already be desirable.

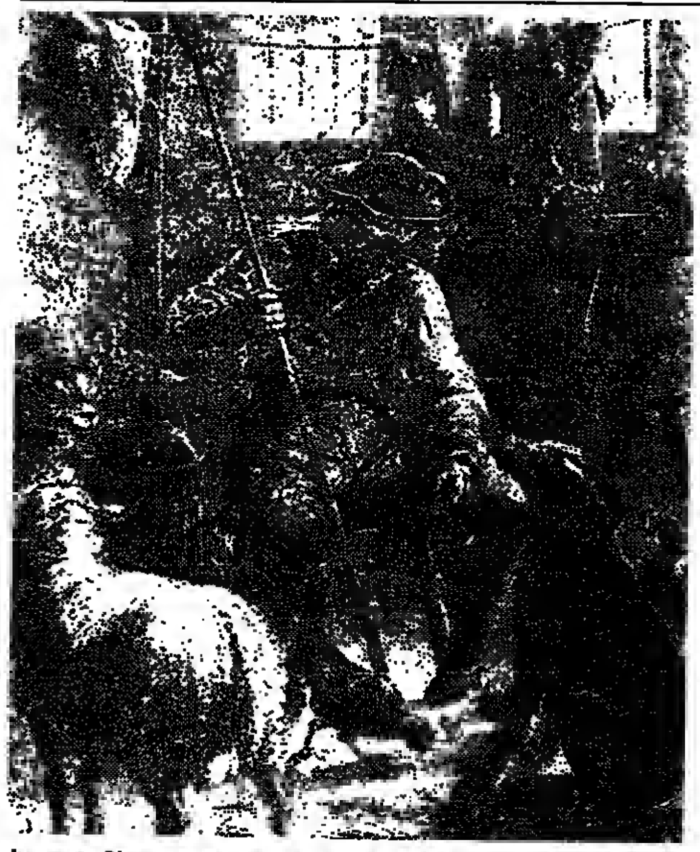
We live on a vulnerable planet. The multiplication of our own kind, and the way we have changed the land, sea and air around us require us to follow through the logic of what we have done and to manage the consequences. We should start before it is too late.

□ *The writer, Sir Crispin Tickell, is British Ambassador to the United Nations. He writes here in a personal capacity.*

AGRICULTURE

Difficult fruits of fertility

Farming's remarkable revolution in productivity looks set to continue, says **Bridget Bloom**



Jacques Simon, a shepherd in the 1880s - from a sketch by C.Yrlante.

THERE HAS been a revolution in agriculture in Britsin and the rest of the rich world in the last 100 years, as in so many other fields. But agriculture must be one of the few areas where some of the solutions to the problems caused by that revolution are being sought in the pre-revolutionary era.

At the heart of agriculture's problems today lies the explosion in production. Among the ways being considered for controlling that is a return to some of the 19th century traditions of farming.

The explosion in production – which has really occurred in the last 30 rather than the last 100 years – has been msde possible by technological advance, combined with the high degree of protection which most developed countries have given their farmers.

The British farmer of 1888 would have considered himself lucky to have harvested anything over one tonne of wheat an acre. His cow produced only about six litres of milk a day, while most of his work was done by horses. He laid perhaps a tenth of his land fallow each year, and used no fertilisers except farmyard manure, and no pesticides at all.

Today's farmer looks askance at wheat yields of less than four or five tons an acre. Milk yields have nearly trebled, very little lsnd is fallowed, and the trsctor and combine harvester are king. Sales of chemical pesticides in the UK alone are currently estimated at some £350m a year, while fertiliser sales are thought to be nearly double that.

The results of the production explosion are only too well known. Supply has far exceeded demsnd, surpluses have built up and the financial costs of farm support have increased markedly as the European Community and the US, in psrticular, have heavily subsidised exports. This, in turn, has distorted world trsde, making life for developing countries and ststes like Australia and New Zealand which subsidise relatively little, even more difficult.

Of the total draft budget of Ecu 41bn for 1987, the EC expects to pay Ecu 27bn for the common sgricultural policy. Two-thirds of this sum will go on buying in, storing and subsidising the export of unwanted surpluses.

Financial pressures of this sort provide the stimulus for reform. Yet while it seems certain, in 1988, that farming is again on the verge of considerable change, and maybe even revolution, its direction is difficult to predict. This is both because reform is still st an early stage, while there sre new technological developments on the horizon which have the potential to make those of the last 100 years look quite mild.

Across Europe, as well as in the US and Japan, research is underway that could produce super-yielding crops, increasing cereal harvests by 20 per cent in perhaps a decade.

Already new hormones are making it possible to increase milk yields by 15-20 per cent without raising feed costs, and soon it will be possible, for example, to raise broiler chickens in half the time it now takes.

In Europe, work is being undertaken which would alter the reproductive cycles of animals, making it possible for cows, for example, to produce twin calves several times a year. Bio-technologists are beginning to produce plants which are genetically resistant to particular pests – and to particular brands of fertiliser or herbicide.

No-one is quite sure of the timescale of this "biotech revolution" but it is already clear that it has the potential to transform agriculture much more fundamentally than it has been changed in the past.

However, none of this is yet reflected in worldwide moves to tackle current problems. Today, the International framework for reform is provided by the 93-member General Agreement on Tariffs and Trade (Gatt), which agreed 15 months ago that agriculture should form a major part of the new Uruguay round of trade negotiations which are now underway. A battle royal is promised as the round progresses, for the major trading blocs have put forward very different proposals. The US plans to abolish all farm supports on a multilateral basis by the turn of the century. However, the EC's much more cautious approach rules out the total elimination of farm support as both economically undesirable and politically unrealistic.

The negotiations within Gatt are expected to last at least two or three years. Meanwhile, the EC is taking its own tentative steps towards reform of the common agricultural policy. The first stage has been to attempt to control production and reduce surpluses. Quotas imposed on milk production in 1984 are now beginning to have an effect, although efforts to place a ceiling on production of other surplus commodities like cereals or oilseeds are still dragging on.

The next stage of reform centres on ways in which Community fsrmers might actually produce less in the first place. It is here, in particular, that there are plans to return to more traditional, less intensive farming methods.

There is much talk in the EC at present of actually taking land out of production, either to grow alternative crops, or, as in a pilot project in West Germany which could be extended Community-wide, leaving it fallow (albeit with a green cover, such as clover).

Britain is pioneering another concept, centred on so-called environmentally sensitive areas. These are regions of great landscape value, like the South Downs, Norfolk Broads or the Pennines, where farmers receive compensation from the Government for returning land to the more traditional grass for grazing, for stocking fields with fewer cattle and sheep, and for not using any fertilisers or pesticides over the duration of their five-year agreements.

These schemes are primarily to conserve the landscape, but they could prove to have much wider relevance. It is increasingly accepted that, while many more farmers, particularly in countries like Germany, will have to leave the land as protection for them declines, many others may be encouraged to remain as managera of the countryside, rather than as providers of food.

هكذا من الاصل

A LOOK INTO THE FUTURE

Learning to live with America's decline

Resolving the US trade deficit problem will take time, warns **Anthony Harris**

THIS IS not where we came in. Although Britain's competitive decline was already obvious to some far-sighted worriers, London was still securely at the centre of the financial universe when the FT was founded. Yet de-industrialisation, as we would now call it, was already well advanced.

Germany, compelled to pay its way in the world without the revenues of a colonial empire, had been overtaking Britain industrially since the 1860s. The American challenge was already becoming obvious. Within a decade the British nation of rentiers was running a trade deficit more than twice as big in relation to national income as the current US deficit.

Yet it was not until nearly half way through the FT'e life, and after a world war had dissipated much of the capital which financed the trade deficit, that the financial crisis associated with Britaln'e decline occurred. Events move much faster half a century later, but fortunately the most important lessons of the 1930s were not forgotten. The crisis resulting from America's decline does not at present threaten to be nearly as damaging as that of the 1930s.

All the same, its resolution is likely to be the main, protracted economic event of the rest of this century. Within that period the US will have to replace its present merchandise deficit with a surplus of about the same size, reducing demand in the rest of the world by a sum of the order of a tenth of US GDP. This should be an easily manageable adjustment if it is sustained and gradual, but the longer it takes, the bigger it will ultimately have to be.

The downward pressure on America's trade partners will be of the order of a half percentage point of national income a year. This is hardly a disaster, but it will be especially painful for those countries which have up to now relied on growing net exports as the main force for expansion. The kind of political tensions which have already been seen between the US and the surplus countries are likely to persist; it will take patience and understanding to prevent their becoming inflamed.

It will also take skilled management to prevent the costs of this slow, nagging adjustment from depressing world growth throughout the period. The 1970s and 1980s have been a sad comedown from the 1950s and 1960s; world growth has fallen by about a third, and the growth of trade has been checked much more sharply. However, this is a positively dynamic performance compared with the last half of the 19th century, when growth was slugglsh and sometimes disruptively interrupted. Almost throughout this period prices fell steadily – a uniqne period in world economic history. The stability of the gold standard came at a high price.

This period is worth remembering, because at present politicians and central bankers are quite actively looking for ways to re-impose stability after the turmoil of the last few years. The Americans in particular are doing some serious research into a commodity target for monetary policy, which would have some of the features of a gold standard (though not the asset settlement which spread deflationary pressures so rapidly through the 19th century world). Meanwhile West Germany is accused of imposing deflation through its own austere attachment to narrowly defined monetary targets.

It should be possible to maintain monetary stability without erring too much on the deflationary side, but if these efforts are even reasonably successful, the world will not succeed in inflating its way out of its present debt problems. International debt has hogged all the attention so far, but the US in particular faces an internal debt problem on much the same scale. The rescue of the savings and loan movement may demand as much as $100bn of public funds.

Banks have still made quite inadequate provision against the probable final cost of consolidating sovereign debt and many industrial companies, especially in the US, must be secretly praying that the Fed's efforts at stability are not too successful, too quickly. Their own debt burden now prevents many of them from investing in expansion, just as the sovereign debt problem depresses some of their traditional exports markets.

Apart from the real strains described above, the financial markets are going to have to contend with what all those involved would regard as an entirely unjust moral burden. Politicians on all sides in America, and on the left at least in Europe, are eagerly blaming the financial institutions for many of the problems which now face them – debt, unstable exchange rates, the damage done to industry, the plight of farmers and developing countries.

This has little to do with the actual justice of the case. The deregulation which began in the Euromarkets in the 1970s, and has spread to the system in general, was largely a matter of neceseity. It would not have been possible to finance the enormous surpluses of the Opec countries in the early 1970s, or the yawning deficits of the US in recent years, had capital not been free to move internationally on a scale quite beyond the powers of national regulations.

It was not the banks or the stock markets that caused the worldwide inflation of the 1970s which gave the oil producers their opportunity to reverse the old pattern of bargaining power. Financiers are not responsible for the historical law which says that nations living on investment income or colonial tribute grow fat and lazy, nor are they determined that the US should suffer its own version of the fate of Athens and Rome at this moment.

All the same, these events have happened, the politicians require a scapegoat, and the financial world is ideally unpopular. Indeed, to some extent blame is just: the immoderate takeover boom of recent years has done real damage, distracting management and pushing many companies deep into debt.

It seems inevitable, then, that the search for monetary stability will also involve a reversal of the recent trend of deregulation. Rules to inhibit takeovers and restrict credit for financial operations are already under discussion in the US Congress. As the bills for debt consolidation fall due, this example is likely to spread.

This may seem a gloomy outlook; it is certainly a challenging one. On the other hand, it would be simple blindness to pretend that the problems we face at the moment will simply fade away of their own accord.

With financial end monetary stability (or at least relative stability) we ehould then be in a position to do what has become almost impossible since the mid-1960s: to plan and invest for the long term.

SHIRT-TAILS, SHORT AND LONG

By HAROLD WINCOTT

"I say, Dad."

"Yes, Son."

"What's a favourable balance of payments?"

"God bless my soul. Wby d'you want to know?"

"Got to speak in a debate. On this European market thing. Another of Old Squirt's filthy provocations."

"Sound's a splendid idea. Are you pro or con?"

"Don't know yet."

"So you thought you'd pump the old man?"

"Why not?"

"Well, let's examine this favourable balance of payments business. It's favourable if you export more than you import."

"Spend a lot of time working and then don't enjoy what you've produced?"

"Right."

"Doesn't sound very favourable to me. And if you export more than you import, where does the balance come in?"

"Son, you don't understand these things."

"Or the payment?"

"What do you mean, 'Or the payment'?"

"Well, if you don't import as much as you export, you don't get paid for your exports, do you?"

"Sometimes you're paying for something you've already had."

"You mean if someone's subbed you?"

"That'e it. Sometimes you're paying for something you hope to have."

"If you sub someone?"

"Right."

* * *

"Dad?"

"Yes, Son."

"Lord Bevanbrook's against this European market, isn't he?"

"Look. There's Lord Beaverbrook. And there's Mr. Bevan. Two entirely different chaps."

"Are they?"

"H'm. Come to think of it, I see what you mean."

"Why's Mr. Bevan agin it?"

"He's not really opposed to it. He just calls it a 'small idea'."

"What, with 250m. people likely to be involved?"

"So you *have* been reading up on it. Well, Mr. Bevan says we ought to concentrate en the 600m. Chinese."

"They're the chaps with short tails to their shirts, aren't they, Dad?"

"That's one way of measuring a standard of living, Son. The United Nations have got a more scientific one. They reckon the per capita – "

"I say, that'e rather good. 'Per capita.' I like it. Very U. I must see I work *that* in."

"Don't interrupt. They put the per capita income of the Chinese at 132 US dollars in 1949."

"How does that compare with Europe?"

"H'm. Let me see. Belgium, $582. France, $482. Western Germany, $320 – that'll be a good deal higher now. Italy, $235. Lnxemburg, $553. Netherlands, $586. United Kingdom, $773. Then there are the Scandinavian countries. Sweden, $780. Norway, $587. And Denmark, $689."

"Altogether, what's it add up to?"

"On the 1949 figures, the European nations had got a combined national income six times as big as China's."

"So much for Mr. Bevan'e 'emall idea'. What's biting the Beaver?"

"He says European free trade would pull our standard of living down to European standards."

"I see. But isn't he the chap who'e been rooting for Empire free trade for years?"

"Yes, Son."

"What's the, ahem, per capita income of India, Dad?"

"$57."

"And Ceylon?"

"$67. Pakistan, $51. Southern Rhodesia, $101."

"Isn't Lord Beaverbrook afraid that Empire free trade will pull us down to *their* standards, Dad?"

"Apparently not, Son."

* * *

"Dad?"

"Yes, Son."

"This week's *Economist*."

"What about it?"

"Interesting note in it on Wales."

"Yes?"

"Yes. Seems a lot of research graduates there reckon the Welsh gross national product at £245 – *per capita*. Scotland's a bit lower. Northern Ireland only £186. England, however, they put at £285."

"Well?"

"Well, if the Welsh and the Scots and the Ulstermen *want* their independence, wby doesn't Lord Beaverbrook let 'em bave it? Wales for the Welsh. Scotland for the Scots. Dragging down our standard of living like this!"

"Son."

"Yes, Dad."

"To-day's *Observer*."

"What about it?"

"Interesting speech by Mr. Macmillan reported in it."

"Yes?"

"Yes. He said that each week each Scotsman 'saves over a shilling more than his compatriots south of the Border'."

"H'm. See what you mean. But if Lord Beaverbrook's idea's right, who *should* we trade with?"

"With whom should we trade?"

"Never mind the grammar. Let's have the facts."

"The United States, of course. Their national income's twice ours. $1,453 a head."

"So you're in favour?"

"Of course. First, Lord help us if the European nations reduce their tariffs between themselves and keep us out. Secondly, I believe there's a positive case for going in. Bigger market. Spur to efficiency and all that."

"But it *would* cause us some headaches?"

"Son, they'll come anyway, free market or no free market."

Harold Wincott, a regular contributor throughout the post war period, perfected the art of explaining economic and financial topics in a lucid and amusing style. Many of his articles, like the one reproduced below from October 30 1956, were written as conversations between father and son.

The wheel's full turn

Continued from page 33

But easing monetary policy achieved little. Recovery awaited the inauguration of Franklin Roosevelt

The depression was a practical refutation of classical economics. It was swiftly followed, in 1936, with a theoretical refutation: the publication of John Maynard Keynes's *The General Theory of Employment, Interest and Money*. The book, which most economists initially found hard to comprehend, argued that classical economics was valid only in special and rather limited circumstances - those in which labour and capital could already be *assumed* to be fully employed.

The old theory dealt with the distribution of output bnt not adequately with what determines its level. Keynes's arguments opened the way to activist macroeconomic policies designed to keep the actual growth of GNP close to its potential.

The depression, however, did more than stimulate the birth of demand management: it led to s much deeper change in people'a conception of the role of government.

Policy activism, however, really took hold only in the third historical phase - the era of American economic dominance after the Second World War, which ended with the collapse of the Bretton Woods exchange rate system in the early 1970s.

Marshall aid (which was extended even to the defeated aggressor) took the place of reparations. Negotiating machinery (the General Agreement on Tariffs and Trade) was established to ensure that world trade was not blighted, as it had been in the 1930s, by bitter and self-defeating tariff wars. At Bretton Woods, an exchange rate system was established that allowed periodic adjustments of parities (in response to "fundamental disequilibria") and yet avoided the instability of floating rates.

Governments committed themselves to the maintenance of growth and high employment as well as to the control of inflation. They did not flinch from heavy regulation where it was thought necessary.

The policies were successful. Between the late 1940s and early 1970s, the industrialised world enjoyed faster growth than ever before, coupled with very low unemployment, moderate inflation and an increasingly egalitarian distribution of income and wealth. Room was found for big aid transfers to the developing world.

Keynesian economics appeared to have successfully patched up capitalism as a political and economic system. The failure of markets in the 1930s had led many intellectuals to flirt with alternative ideologies, such as communism and socialism. They now came back into the fold as staunch supporters of the "mixed economy" and the welfare state.

But the economic barometer was not to stay set fair for ever. The stability provided by a smoothly operating international monetary system proved relatively short-lived: the Bretton Woods machinery began to break up during the late 1960s.

As the post-war Keynesian consensus dissolved, intellectual leadership passed to a new breed of economic liberals who favoured free markets, small government and low taxes. But the phenomenal rise in their influence was not matched by a corresponding improvement in the performance of economies.

In fact, the era of "economic confusion" that began in the early 1970s (and continues to the present day) has been characterised by many of the failings of inter-war period. Among other parallels, it has seen debt crises, high inflation, sluggish growth, deep recession, mass unemployment, trade wsrs, violent exchange rate instability, and stockmarket panic (shares fell further and faster on Black Monday last October than in the Wall Street crash of 1929).

A common feature of these two unstable periods has been the US's failure to exercise global economic leadership: its failure to influence events constructively. Greater sophistication on the part of US leaders and a keener appreciation of the international impact of domestic policies (be they tax cuts in the 1980s or tariff hikes in the 1930s) would undoubtedly bsve eased tensions. But it would hardly have removed them altogether: both the inter-war era and the post-1971 years were *transition* periods, and difficult for this reason alone.

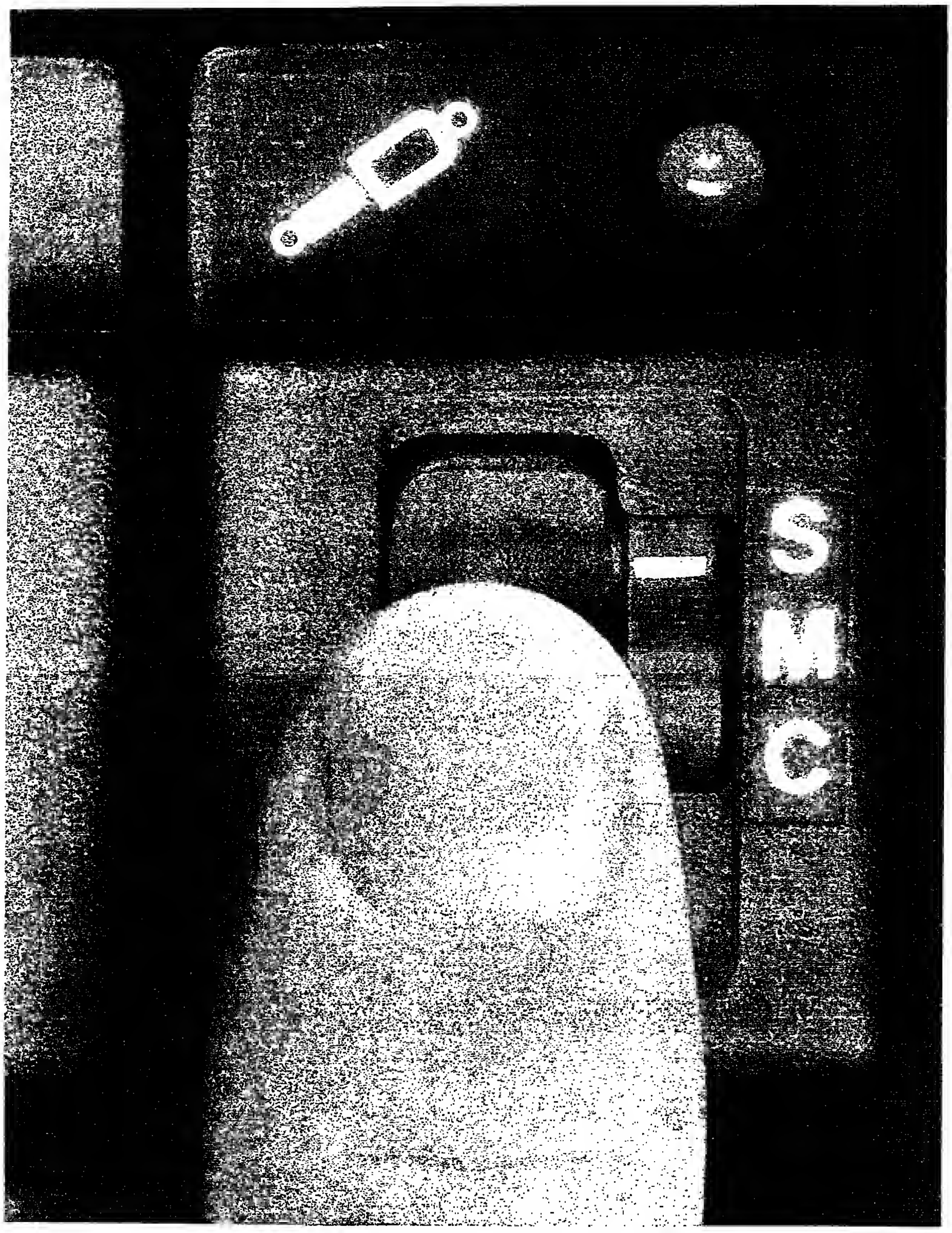
What of the future? In a world where all countries are economic rivals but none is dominant, managed solutions to economic problems may gain popularity. The need for cooperation is already taken for granted in the currency markets.

If cooperation, here and elsewhere, works, it could restore governments' confidence in their ability to improve on free market outcomes. Such a conclusion would be reinforced if politicians noted that liberalisation has tended to create as many problems as it has solved; it has certainly failed to transform the economic health of nations in the 1980s.

These are straws in the wind. Yet it is not impossible that the reader who calls up his screen-based Financial Times in 2013 will find himself living in an interventionist world which resembles the idealistic 1960s more closely than the hard-nosed 1980s. This decade'e love affair with markets, a necessary reaction to post-war Keynesianism, could turn out to be no more than an historical curiousity.

* *A History of the World Economy. James Foremon-Peck. Wheatsheaf Books*

IF YOU DON'T FANCY THE SUSPENSION YOU CAN ALWAYS CHANGE IT.



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It gives a ride that is both controlled and comfortable.

A computer oversees the Electronic Ride Control system on the Senator CD.

Every 2.5 milliseconds it checks that all is well.

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The computer will also change the ride out of 'Comfort' into 'Medium' if you go over 70mph.

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But then being effortlessly in control is what being in the Senator is all about.

You may never have heard of our unique approach to suspension design, Advanced Chassis Technology.

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Then again, you may have read something of ABS braking, standard on the Senator CD.

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FROM THE beginning, the history of Europe's integration has been driven, defined or distorted by the pressures of the outside world, notably the pressures of the superpowers. Throughout these 40 years, Europeans have remained divided or uncertain over the direction or the distance they wished to travel together, and as a result their progress has been determined less by their collective decision-making than by the buffetings of external forces.

By and large, these periodic buffetings have not been severe enough or prolonged enough to force the governments and peoples of Western Europe seriously to re-examine the advantages and disadvantages of the traditional pattern of the sovereign nation state. And since the preferred centre of gravity of the political decision-making of the Six, and then the Nine, the Ten and now the Twelve, has always settled at the lowest common denominator, progress towards the unification of Western Europe has been slow and/or spasmodic.

Needless to say, the conservative recalcitrance of governments has repeatedly been rebuked by idealistic and far-sighted individuals, who have perceived that the price of old-fashioned "national sovereignty," at least in the case of medium-sized European countries, was in reality a diminution of national autonomy, both in the face of the two politico-military superpowers, and *vis-a-vis* the growing globalisation of international trade and financial flows. These arguments for a more thorough-going integrationist impulse were repeatedly brushed aside by governments, for two categories of reasons: economic and strategic.

The economic case for the nationalist model has taken opposite forms according to varying circumstances: in the 1960s, economic growth was rapid and painless, and the trappings of national sovereignty posed no obstacle to its continuance.

The forging of Europe

The pressures on Europe - political, economic and strategic - to unify are growing. As Ian Davidson reports, however, strong national forces of resistance remain to be overcome

By contrast, the 1970s, with the collapse of the post-war Bretton Woods international monetary system, two oil shocks, and the scourge of stagflation, created national economic difficulties in the form of inflation and unemployment whose political and social management depended on the democratic legitimacy of national governments.

The 1965 constitutional crisis between General Charles de Gaulle and the European Commission under Walter Hallstein, over the possible role of majority voting in the Council of Ministers, was a major ideological conflict, yet though, on the one hand, it caused profound and prolonged political damage to the institutional working of the Community, yet on the other it proved largely irrelevant to the perceived material needs of the member states.

It caused profound damage, because the six-month battle to dominate the soul of the Community left an emotional legacy which was never forgotten. Yet it was at the time a pure conflict of political idealism which, since it caused no damage to the economic prosperity of the member states, and did not even delay the completion of the Community's customs union, was able to remain an unresolved quarrel at the level of *arriere pensee* – and therefore a conflict which remained unresolved.

Indeed, it remained unresolved for almost 20 years, and perhaps it is still unresolved. The Single European Act of 1985 broke new ground by extending the role of majority voting, for the specific purpose of creating a European market which would be truly free, yet it failed to settle the mystical question whether an individual member state could claim the right of veto. This prolonged ambiguity, on an issue of such apparently profound political importance for an integrating Community, is itself a symbol of the ambivalence of the member-states towards their collective enterprise.

The strategic obstacle to more rapid progress in the direction of a united Europe has been three-fold, at least until recently: the Soviet Union represented a permanent threat to the security of the countries of Western Europe, the Soviet Union's policies were uniformly rigid and predictable, and the United States was both an essential and a reliable protector. The convergence of the might and the menace of the Soviet empire, with the security which only the US could guarantee, gave Western Europe every reason for postponing the pursuit of a more independent political role in the world.

Comfortable inertia, and the vested interests of national lobbies both political, commercial and administrative, will undoubtedly continue to mobilise arguments for maintaining the status quo. But it may well be that the status quo, both economic and strategic, is in the process of fading away, leaving Europe with little option but to face the hard choices of European independence.

Looking at the economic sphere, the signs are ambivalent. The project for a truly unified market in 1992, with all that it ought to entail in terms of tax harmonisation, freedom of capital movements, monetary integration and economic policy co-ordination, seems to imply a qualitative leap forward. If not, what was the point of a treaty text requiring ratification in all member states? Nevertheless, it is impossible to ignore the many tell-tale signs of foot-dragging on different issues by different member states, notably by Germany, whose enthusiasm for the European Community seems to wane with every passing year.

If there is to be a great leap forward in the economic integration of Europe, it will not be because the member states have suddenly seen a manifest light, but because (once again) they are driven forward by external forces: the repercussions of the US deficit, the decline of the dollar, the diversion of the Japanese export drive from the US to Europe, the competitive pressure of the newly industrialising countries, or more generally a sense that only a closer European solidarity offers a reasonable bulwark against the instability of the world economic system.

The strategic incentives for a re-think of Europe's policies are, if not clearer, at least more powerful. No-one knows with any confidence the full significance of Mikhail Gorbachev, neither how far he wants to go at home or abroad, nor how far circumstances or his colleagues will allow him to go. What is clear is that at least in style and in declaratory terms, he represents a new era in Soviet policy in which the most undeniably novel element is that it is, precisely, innovatory and unpredictable.

The formal contrast between the international strategic and the international economic systems, is rather striking, yet some European governments seem to be drawing opposite conclusions. Most of the formal rigging of the international economic system fell away in the early 1970s, when the Nixon Administration simply unravelled the Bretton Woods rules. Yet for many years thereafter Europe seemed to go on believing in the US as the leader of the economic free world, and it is striking how reluctant are the member states to build up the European Monetary System into, not a replacement for the dollar, but at least its complement, a sort of European harbour in the face of monetary storms.

Formal rigging of the international security system, on the other hand, remains very much as it always has been. The French Government has multiplied initiatives for strengthening its defence links with Western Germany and, more generally, for reclaiming its legitimacy as a loyal member of the Atlantic Alliance. But the main structure of Western defence remains Nato, essentially unchanged and unreformed, as it has been for many years.

And yet, inside this institutional carapace of Western security arrangements, there has been an unparalleled loss of confidence in the leadership of the Western superpower, which has been brought to a head by the realisation that Ronald Reagan and Mikhail Gorbachev were perfectly capable of negotiating novel or even revolutionary arrangements which *might* turn out in the end to be for the best in the best of all possible worlds, but which might (after all) turn out to be a bad bargain for Europe.

The net result of these many contradictory pulls within the European Community is, needless to say, contradictory. The French government of Mr Jacques Chirac has responded to the steep decline in the dollar and the consequent pressures on the currencies of the members of the Community, with loud calls for faster progress towards a single European currency and an institution corresponding more or less to a European central bank. Chancellor Helmut Kohl of Germany immediately and publicly rejected the idea of a European central bank; but his coalition government is evidently divided on this as on other issues.

The Action Committee for Europe, the most prestigious lobby for Community orthodoxy, has called not only for rapid progress towards monetary unification, but also for a substantial strengthening of the multilateral defence links between the member states within the framework of an enlarged and reinforced Western European Union. Yet any media attention attracted by these proposals was soon drowned out by the publicity surrounding the 25th anniversary of the bilateral Franco-German Treaty and the several new institutions which the two governments had decided to create to mark the occasion.

To draw a prediction out of so much flux would be hazardous in the extreme, to refuse any conclusion at all would be pusillanimous. Three comments seem tenable. The first is that Europe will remain worried by Gorbachev, despite his charm, because Eastern Europe will remain in the fullest sense part of the Soviet empire. Second, it will be difficult and it may be impossible for Europe to recover its old confidence in the American protectorate, so there will be a continuing incentive to consider ways of strengthening Europe's self-reliance in strategic terms. Third, only the forces of political Grand Strategy will be strong enough to overcome the national forces of resistance to a more integrated European Economic Community.

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THE EUROPEAN COMMUNITY

A wider influence through unity

Robert Mauthner on the vision which led to the creation of the Community

THE EUROPEAN Community, it has to be admitted, is no longer the fashionable concept it once was, except perhaps in those countries like Spain and Portugal, which have only very recently joined it. When it is not taken for granted, it is decried as a bureaucratic mammoth which harmonises for harmonisation's sake, produces huge farm surpluses at an astronomical cost and has yet to achieve one of its primary economic objectives, the creation of a genuinely unified internal market. As for its wider political goals, such as the formulation of common foreign policies, their attainment is still in a very embryonic stage and the results, so far, have fallen far short of the hopes of the Community's founders.

Yet in spite of all these shortcomings, not a single member government would today dream of putting the clock back and contemplate going it alone outside the Community, even if the alternative prospect of joining some looser economic and commercial association existed. For the Community, apart from the very substantial trading and other economic benefits which it has brought its members, has also given them a combined weight and influence in international affairs which they would never have been able to exercise individually in the post-imperial era following the Second World War.

The creation of successive European organisations during the decade spanning the late 1940s to the late 1950s, such as the Council of Europe, the European Coal and Steel Community (ECSC) and the European Economic Community (EC), was not just the result of the idealistic dreams of a few influential European philosopher-statesmen. While no-one would dispute the predominant role which the vision of men like Jean Monnet, Robert Schuman, Paul-Henri Spaak and Konrad Adenauer played in the birth of the first European institutions, their ideas were firmly anchored in the realities of post-war Europe.

The overall objective of the "fathers of Europe" was to put an end to the constant hostility between the major European powers, which had been the cause of two world wars within 30 years and had led to the deaths of millions of people, the destruction of much of Europe's economy and the devastation of many of its biggest and most beautiful cities. However, at the core of their thinking was the much more down-to-earth consideration of preventing the rebirth of German nationalism and the resuscitation of Germany's industrial war machine, which was held largely responsible for past conflicts. At the same time, the mistakes made after the First World War by the victorious allies, which bled dry the German economy by the exaction of ruinous war reparations and thus sowed the seeds of new conflicts, had to be avoided at all costs.

It was this hard-headed realisation that any future European organisation had to deal sensitively and effectively with the "German question" – exacerbated by the division of the country after the Second World War and yearnings for reunification – which inspired Monnet's not entirely original proposal to pool Europe's (principally West Germany's and France's) coal and steel production under a common high authority.

The failure of successive British governments to understand, or perhaps their deliberate policy to ignore, the political implications of those first and subsequent moves towards European unification, including the creation of the EC through the Treaty of Rome in 1957, is one of the great tragedies of post-war European history. No country could ever have been solicited more frequently and more earnestly to participate in these historic developments, only to spurn all the advances made to it, sometimes with astonishing casualness. What is remembered are General de Gaulle's two vetoes of British membership in the 1960s. What is too often forgotten is that, in the preceding decade, all the six original member countries made repeated, if vain, moves to persuade the UK to embark on the European ship.

Scholastic squabbles over "prior commitments" to the pooling of sovereignty prevented Britain from participating in the Schuman Plan negotiations, though, if it had done so, it clearly could have influenced the contents of the final treaty setting up the ECSC. The refusal by the Churchill government in the early 1950s to commit itself sufficiently to the proposed European Defence Community greatly contributed to the French National Assembly's vote against ratification of the project. Finally, a great opportunity to make up for lost ground was missed when Britain remained on the sidelines during the Spaak Committee meetings leading up to the negotiation of the Treaty of Rome.

No doubt, some good reasons and many excuses can be found for British policy, though they look distinctly tattered with the benefit of hindsight. Britain, alone among the Western European nations, emerged from the Second World War as a genuinely victorious power, though France was officially classified as such, thanks to the efforts of General de Gaulle's Free French Forces and government-in-exile. Britain's industrial structure may have been obsolete and its labour force exhausted from the efforts it had made during the war, but the country still had a colonial empire and its national confidence and pride was intact. Britain's close links with its colonies and dominions had been preserved, even though many were to become wholly independent within a short time after the war, and the Imperial or Commonwealth preference system provided it with most of the cheap food it needed, as well as furnishing assured export markets. Why, therefore, give up the family you know well and trust for a mistress who might turn out to be fickle and cost you more into the bargain?

Apart from the threat of supranationality to Britain's sovereignty – a danger which has always tended to be exaggerated in London – it is the Community's common agricultural policy and its related financing problems which has stuck most in British gullets, both before and after membership. The need for radical reform of the policy, which soaks up as much as two-thirds of the entire Community budget, is now more widely recognised in other member countries. Yet it should never be forgotten that there were important political as well as economic reasons for including agriculture in the Common Market and that the Community would never have seen the light of day if it had been excluded.

When the EC was created, the farming population of Italy and France still made up 35 per cent and 25 per cent respectively of the total labour force and farming's contribution to the GNPs of these two countries was 14.6 per cent and 12 per cent. It was inconceivable that a high tariff country as ill-prepared for industrial competition as France was at the time would open its frontiers to German manufactured exports without a *quid pro quo* for its own farming produce. The trade-off may have created an unmanageable monster, but it was a necessary price to pay at the time for greater European unification.

Significantly, when Britain did finally take the plunge and apply for EC membership for the first time in the autumn of 1961, only to be blocked by de Gaulle's veto in 1963, the motives for the application were at least as much political as they were economic. That is why London reluctantly accepted the farm policy more or less in its entirety, with the perfectly acceptable aim of reforming it from within. Yet it had taken Britain 16 years since the end of the war and five years since the Suez debacle to come to terms with the change in its world status and to opt for a new European vocation – a delay which deprived it of any say in shaping one of the most important political and economic developments of the 20th century.

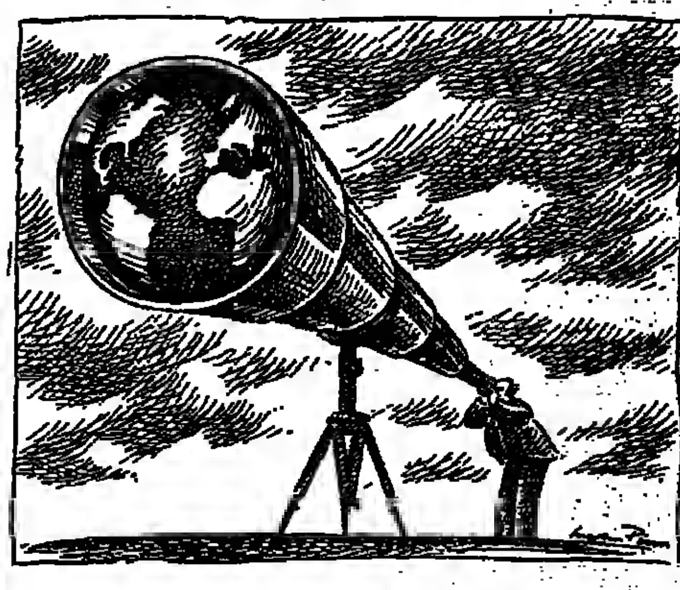

Robert Schuman


Konrad Adenauer


Charles de Gaulle


Jean Monnet

THE WORLD



FINANCIAL TIMES 1888 1988 CENTENARY YEAR

The world order has changed drastically in the past 100 years. New nations and superpowers have emerged, and Europe has begun to unite. Yet, some old conflicts remain intractable.

THE VIETNAM LEGACY

Abrupt end to US century

The US ability to influence world events was damaged beyond repair by Vietnam, argues John Graham

"WE NEED to bring forth a vision of America as a world-power...America as the dynamic centre of the skilled servants of mankind...America as the Good Samaritan, really believing that it is more blessed to give than to receive...America as the powerhouse of the ideals of Freedom and Justice. Out of these elements surely can be fashioned a vision of the 20th century...the first great American century". Henry Luce, proprietor of Time and Life magazines, on the eve of World War II.

Even in a capitalist world inured to takeover bids and stock market manipulation, this is a bresth-taking statement: the declared intention to annex an entire century. We should not, of course, expect displays of modesty from publishing tycoons, but it seems fair to ask, as the century nears its close, whatever bappened to tbe American ceotury? Who now has control of an enterprise in which the Americans once claimed a cootrolling interest?

Henry Luce's seotiment was not the simplistic drivelling of an egomanisc blatherskite. Despite the anti-colonialist and often isolationist roots of the American way of life, Henry Luce's idea was in its own way a peculiarly American idea, fostered by the country's political, industrial and financial leaders and accepted, more or less, by the population at large. It was also a specifically 20th century idea, born with President Woodrow Wilson's ending of traditional isolationism and America's entry ioto World War II; nurtured by President Franklin Roosevelt and America's decisive entry into World War II; and flourishing into maturity under Presideots Harry Truman and Dwight Eisenhower. Their equally decisive entry Into Korea, their establishment of the Marshall Plan, Nato, and international organisations such as the IMF and the World Bank set most of the ground rules for the post-atomic age.

It did indeed seem that the American century was alive and well. Its most grandiloquent expression came from the lips of the first of the younger post-war men to become President, John Kennedy, in his 1961 inaugural address: he promised the world that America would "pay any price, bear any burden, support any friend, oppose any foe, to assure the survival and success of liberty." Henry Luce must have been proud of him.

Ironically, the analogy from financial markets continues to hold good. The price of a stock is a function of public confidence, and it follows that when a stock hits a historic peak, that is the moment when confidence that it will rise even higher is at its greatest. It is also the moment, by definition, when the price will inevitably fall. By the same paradox, John Kennedy's global promise for the future came at the precise pinnacle of American power. Both in financial markets and international affairs, the pinnacles can only be perceived by hindsight, but as John Kennedy moved into the White House in January 1961 the American century began to weaken. Within ten years it was dead.

It died in the fierce terrain of Southeast Asia, in the mountains of Laos, the jungles of Cambodia, the rice fields of the Mekong delta. The Vietnam era, 1961-1975, destroyed two Presidents, Lyndon Johnsoo and Richard Nixon, and incapacitated two more, Gerald Ford and Jimmy Carter. It led directly to the Inflation and financial instability that we now take for granted; these were not facts of life in the 20 years immediately following World War II.

It divided the so-called western world, the members of the OECD; it infuriated the communist giants, the Soviet Union and China; and it permanently antagonised much of the under-developed world, where America today has few friends. Its effects on the countries of Southeast Asia itself were nothing short of calamitous; the whole of Vietnam and Cambodia and much of Laos remain in a pitiful state to this day. This is hardly surprising, given the ferocity of the actual warfare. By 1970 – and this was five years before the end of the war – the US Air Force had dropped more bombs on Indochina than had been dropped on all targets in the whole of human history. Never were the limits of techoology more cruelly exposed.

Within America, the effects were equally calamitous. The nation experienced a trauma equalled in its history only by the war between its states a century earlier, and for once the use of the word is justified. "National trauma" is the phrase Americans themselves most frequently use to describe the whole oumbing experience.

At the individual level, the trauma is a drug-addicted, psychologically ruined ex-GI with no escape hatch from his private catastrophe, or a mother in Council Bluffs, Iowa, griev-

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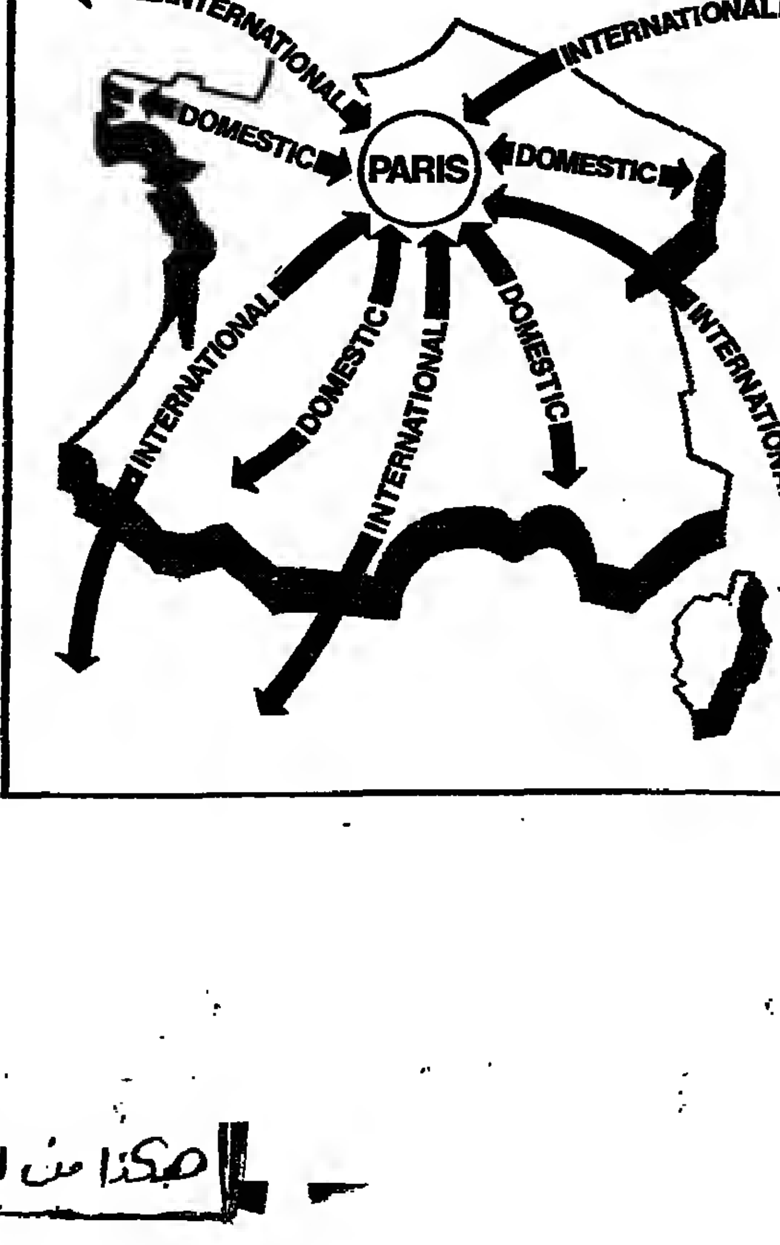
Events in Vietnam: continuing trauma for the American nation



THE US TODAY

Adjusting to new realities

The automatic supremacy of a generation ago is no longer evident, says Jurek Martin

GROWING OLD gracefully is never easy. The United States of America, for nearly 200 years seemingly the eternal wellspring of youth, is coming to terms with some of the more painful aspects of maturity.

It can no longer out-run, out-jump and generally out-perform every other nation on earth. Its decline is not absolute but relative, and for many, at home and elsewhere, it will remain for years to come the exemplar of much that is admirable in a functioning democracy.

Its power, in terms of overall inventiveness, vitality and commercial clout, as well as mere military muscle, will equally remain ever-present forces for the foreseeable future. Circumstances could still restore to the US, for a time, a dominance, even an hegemony, in world affairs. But the natural supremacy that seemed so self-evident but a generation ago is no longer automatic.

There is nothing original in this proposition. If the Vietnam War has come to be a symbol of a watershed in contemporary American history there have been other examples of equal validity, of which the vulnerability of the dollar is only the most obvious, that attest to the limitations on power and to the factors of interdependence that now constrain the US.

Americans themselves sense this – and their best authors have, for years now, been explaining why it is. To some, the country is simply going through a period of digestion after an excess of feasting on change, to others the adjustment is much more fundamental and reflects, among other things, a misallocation of national resources and the relative rise of other nations and cultures.

The country's two most recent presidents, Jimmy Carter and Ronald Reagan, themselves symbolise the problems of adjusting to new realities. The first, intelligent, hard-working and indeed a believer in interdependence, was undone because, in the Ayatollah Khomeini and in inflation, he met forces that, he knew, he could not effectively combat alone. More to the point, his country sensed the tasks were beyond him.

The second, a master of imagery and the apostle of American leadership, was elected twice on the promise that there were no mountains that could not be climbed but – less than a year from now – will leave office not having strayed far beyond the foothills. The brief illusion of his first term, that the US could "walk tall" again, may have helped his re-election (in which, in any case, the alternative was not prepossessing) but looks even thinner today.

In 1979, Mr Carter lamented what he called a "malaise" affecting the country, by which he meant an inability to work together for the common good or even much of an understanding what that good was. Mr Reagan pretended, successfully in electoral terms, that the disease did not exist.

Presumably, somewhere in between these extreme views lies an approximation of the truth, but finding the Holy Grail, the natural pursuit of all politicians, is no mean feat. Never more so than this year, when those who would become President must simultaneously be like neither Mr Carter nor Mr Reagan. It is, therefore, hardly surprising that, as the year begins, there is very little clue as to the identity and convictions of the next White House occupant.


Jimmy Carter, Ronald Reagan: contrasting styles

In part, this also reflects the continued decline of the political parties in America. This shows up not simply in the collapse of party discipline in Congress, which has never been that important in any case. Indeed, one of the traditional strengths of the Republicans and Democrats was that both had elastic sides. More critical is that both have become increasingly more beholden to special interest groups and more prone to regionalism. Worst of all is that both have shown signs of intolerance.

The Republican Party has been subject to a revolution. Its origins may be debated but its effect has been the eclipse of the establishment centre, exemplified by Nelson Rockefeller, and the rise of the ideological new right.

If there is a perception today that the radicals have run their course at a policy level, it is still the case that they control the party at the grassroots (activists always tend to, regardless of persuasion). It thus becomes hard for a Republican protagonist for the highest office to establish a degree of independence, as witnessed by the early campaigns of the two GOP leaders, Vice-President George Bush and Senator Robert Dole.

The Democratic Party problem is very different, but it also involves the collapse of both an establishment and a rationale. FDR's grand liberal coalition of interests, the working classes, the poor, blacks and other ethnic groups and a preponderance of intellectuals, held sway into the late 1960s, but subsequently was shown to be vulnerable even inside the party, as George McGovern in 1972 and Jimmy Carter in 1976 demonstrated. The 1984 election, the old guard's apparent last hurrah, was simply a debacle.

A badly defeated party at least has the opportunity to reconsider. Mr Gary Hart's strong bid for the nomination in 1984 and the emergence of a fistful of new and impressive Democratic state governors throughout the 1980s suggested the emergence of original ideas, as well as fresh faces.

But politics are generally more practical than theoretical and, as Mr Reagan's government ran into the sands of its own incompetence, it became more profitable to engage in constructive opposition than in the presentation of alternatives.

The return of the Senate to Democratic control in 1986 more or less buried the issue of a conscious internal reassessment. But it has also left the party in 1988with no coherent bill of goods to offer the national electorate. The evidence of this is the proliferation of current candidates, none of whom can at this stage remotely be described as having a particular edge, or even, the Rev. Jesse Jackson and Senator Paul Simon on the left apart, a sharp identity.

Of equal concern, and also reflective of Mr Carter's "malaise," is the extent to which those on both sides most notionally qualified to run for the presidency are declining to get involved. Each may have good individual reasons, and it is undoubtedly the case that the next President is going to have structural and international problems on his plate of a magnitude that cannot be wished away, as Mr Reagan so successfully managed to do for so long. But the collective impression is of an unwillingness to assume the responsibility, and the risks, that, for example, earlier would-be presidents would have considered more of a challenge than a liability.

Certainly the authority of the presidency remains in question. When he was riding high in his first term, it was said that Mr Reagan understood the nature of his office like few before him. But the experience of his last two years shows that this licence is, very properly, not unlimited. And if the office now seems less exalted and the personal cost of attaining it is very high, it is understandable that the "best and the brightest" do not always volunteer themselves for the race.

Social and economic conditions and attitudes in this decade are not exactly conducive to the classic American activist response. On the one hand, the greatest social problems – narcotics abuse and, now, the spread of Aids – present no easy solutions; on the other hand, after five very prosperous years, the country seems more content to hold on to what it has rather than continue the process of change.

The activists of the 1960s on the left have aged, while those on the right have been frustrated, perhaps inevitably in what has become to be known as the "me, too" generation, more interested, as it is, in self rather than collective improvement. The Supreme Court, at times in its history the architect of great change, has, for 15 years now, preferred to consolidate, itself a reflection of contemporary mores.

Thus, the substantial tax reform advanced by the Reagan Administration, from which middle-class Americans have clearly benefited, was, while ideologically conceived, very much a policy in tune with the sentiments of the 1980s. Americans may be beginning to believe what they are increasingly being told – that the country is living beyond its means – but the reality has yet to hit them in the pocketbook; and it would be a brave politician in 1988 who would go out on a limb and say so, and expect to win.

Domestic introspection inevitably feeds through to foreign policy, and in no area is there greater uncertainty than in the posture that the US will adopt to the rest of the world for the balance of this century. The Manichean struggle against Soviet communism, so much the *leitmotif* of the Reagan Administration, looks even less valid now, with the advent of Mr Gorbachev, than it did when the "evil empire" was run by Mr Brezhnev; in any case, Mr Reagan and Mr Gorbachev have met and signed an arms control treaty; more than that, Mr Reagan cannot even muster a consensus behind his desire to crush the Sandinistas in Nicaragua, proving that few in America seriously believe that the red tide is just off the shores of San Diego.

The invasion of Grenada was as far as even this President could go, and that was quick, clinical and against insubstantial opposition. What happened to the Marines in the Lebanon was more salutary.

But the US commitment to its allies, and not just in Nato, is still considered critical. Doubtless Europeans, and maybe even the Japanese, will have to do more to defend themselves; US politicians have been demanding this for 20 years and from an American perspective, the case for it now approaches the overwhelming. But managing a new relationship and ensuring that the US deploys its strategic resources in the appropriate manner will be difficult.

PROFILE: F.D. ROOSEVELT

A patrician public servant

Jurek Martin pays tribute to an inspiring leader in war and peace

OVER THE last dozen years, as the United States has celebrated assorted bicentennials, its historians have dwelled more than they might otherwise on ranking the nation's 40 presidents. There is an almost universal perception, except, perhaps, on the most distant right of the political spectrum, and not even always there, that in the 20th century Franklin Delano Roosevelt has no equals.

FDR was, as Arthur Schlesinger puts it, above all "a devotee of the public purpose." Other presidents have been practical or ideological, and more likely advocates of private interest, or driven by different, particular demons. But Roosevelt, perhaps because of a patrician background that inevitably led him to public service, never really doubted what his purpose was.

He happened to assume the presidency in 1933 when the public good was rendered bad by the ravages of the worst imaginable depression. What might have daunted a lesser man brought out the best in him, especially his inclination to experiment. Within 100 days he had sown the seeds from which recovery grew. Even though it took years to come to fruition, he instantly gave his country a commodity conspicuous by its total absence – hope.

FDR: gave his country hope

In wartime, too, he conveyed to the beleaguered allies before Pearl Harbour a similar reassurance; and this from a country which had withdrawn so much from the international arena after the First World War. Roosevelt will not be remembered as a great war leader of Churchillian stature – the circumstances were in any case so different – but there never was no doubt that under him the US would do what it had to do when it had to do it.

It may be that extraordinary circumstances can sanction extraordinary responses, though they do not always get them. FDR was much more of a shrewd, instinctive politician than a commanding political theoretician. But his nose for what was necessary and his determination to bring about the necessary, against whatever odds, was the stuff on which both theoretical and practical politics came to be based.

In 1940, looking back as well as forward, he described his own fundamental rationale. "Parties," he said, "are good instruments for the purpose of presenting and explaining issues, of drumming up interest in elections and, incidentally, of improving the breed of candidates for public office. But the future lies with those wise political leaders who realise that the great public is interested more in Government than in politics ... the growing independence of voters, after all, has been proven by the votes in every Presidential election since my childhood, and the tendency, frankly, is on the increase."

Fifty years later his words sound prophetic. The enfeeblement of political parties in the US has proceeded apace and voters are increasingly independent, a mixed blessing, maybe. But it is also evident, even after nearly two terms of the most ideological, free market administration, that America wants to be governed properly.

The hardest nut for the Reaganauts to crack has been the most tangible aspect of the Roosevelt legacy, the social welfare system that he installed to meet a crying need and which has now become an inextricable part of the American way of life. Ronald Reagan's bid for the Republican nomination in 1976 foundered on a proposal to dismantle social security; 12 years later, as President and at a time of great policy need, he still must declare it off-limits to the budgetary axe.

Yet the Roosevelt legacy still weighs both heavily and to its benefit on his own party, the Democrats. Recreation of the electoral coalition that got him returned three times after 1932, then cutting across economic and class strata but drawing most on the nation's less privileged, remains the Holy Grail for the party, even though times and circumstances have changed. It still works just about well enough at the Congressional level, but only three Democrats have made it to the White House in the last nine elections, the last two against weak opponents. The Mondale debacle of 1984 might well have marked the last hurrah.

Unless times change again, in which the case the extraordinary additional qualities he was able to bring to bear might well be recalled. These include the ability to inspire (not for nothing was he Mr Reagan's early idol), the capacity for ruthlessness, the willingness to experiment.

FDR was no angel; he was not above breaking the law or, failing that, trying to rewrite it by packing the Supreme Court. Some of his personal standards, not least one notable extra-marital affair, might even disqualify him for running for president according to contemporary mores. But he knew why he was president; to serve the public good; and he did just that, as few before and none since. And he left his nation in splendid shape, master of most it surveyed and model for a battered and bruised Old World.

Continued from page 66

ing for a dead son. At the global level, no one put it better than former Secretary of State Henry Kissinger who shared e Nobel "Peace" Prize for his role in first prosecuting the war that nobody won, the war between victims, and then arranging a peace that never was.

In his words: "Vietnam is still with us. It has created doubts about American judgment, about American credibility, about American power – not only at home, but throughout the world. It has poisoned our domestic debate...we paid an exorbitant price."

It is not yet possible to calculate that price precisely. Some historian of the future, with hindsight, may be able to make a clear reckoning, draw up a definitive balance sheet. But it is possible to see how, in the last 15 years, America has been unable to direct international affairs as it once wished.

The first setback to American interests was the increase in oil prices in 1973-74. There appears to be no limit to the appetite of American consumers, and this appetite has come to depend on the supply of cheap raw materials, and manufactured goods, from overseas. A dominant world presence, militarily and politically, was necessary to maintain this cheap supply, and by the mid-1970s this no longer existed. America was unable to prevent either the first or the second round of increased oil prices.

Elsewhere in the Middle East, an area of particular interest to US foreign policy, the last 15 years hava been a story of continuous setbacks. President Carter was destroyed at one stroke by Ayatollah Khomeini's seizure of the hostages in Tehran. (The hindsight rule must be respected. We do not know how Vietnam affected the Ayatollah; he might have gone on the offensive against America anyway.)

Washington has been able to do nothing about the war between Iran and Iraq, or the Soviet invasion of Afghanistan. It was with considerable difficulty that President Reagan developed enough support to send a tiny force to Lebanon, and despite the arrival of the Sixth Fleet in impressive show in the eastern Mediterranean, both the land force and the fleet soon retired, unable to accomplish anything to halt the disintegration of the Levant.

Closer to home, US interests are being seriously threatened in Central America, but it is dificnlt to see Washington'a response as much more than a holding action. Neither the White House, nor the Congress, nor the population in general wishes to make the commitment, military or financial, which might remove the threat. They do not have the stomach for the fight. Such a state of affairs would have been inconceivable in the 1950s or 1960s.

This lack of whet is often called adventurism – though its practitioners always claimed to be acting "in the national interest", or, better still, "in the interests of world peace" – may be no bad thing. The role of world policeman abandoned by America, and seemingly by everyone else too. The world is seen to be too difficult a place to police, thanks to Vietnam.

Afghanistan, though directly beside the Soviet Union and not half the world away as Vietnam was for the US, is proving to the thorn in the Soviet flesh that Europeans with experience of that terrible country always said it would be, and the Soviet involvement in terms of men, material and money does not begin to compare with America's involvement in Vietnam. America's enemies may have been delighted by that country's discomfiture (the polite word for defeat) in Southeast Asia, but they may also have absorbed the lesson from the sidelines: adventurism is risky.

But riskier still is the consequence of realising that you cannot win some wars by the old-fashioned method of sending in lots of men and machinery. In the post-Vietnam era both super-powers enormously increased their strategic warhead arsenals. These doubled, roughly speaking, between 1973 and 1980, and that was eight years ago. Ths swamps of the Mekong delta are the lineal ancestor of President Reagan's Strategic Defence Initiative.

And this material costs money. Kissinger's statement that Vietnam is still with us is nowhere better exemplified than in the continuing realities of late 20th century international finance. The huge costs of the Vietnam war, the still huge US defence budget, the previously unimaginable US budget and current account deficits....these have ramifications of which no one needs to be reminded, since Monday, October 19, 1987 on Wall Street.

Vietnam has faded from the world's consciousness, and will continue to fade. Alreedy in America it is ancient history, like Korea or World War II, to anyone under the age of 25, or even 30. So long as nobody blows it up, the world may benefit from the disappearance of the American century. Again and again the America people have shown what explosive bursts of energy they are capable of when not distracted by war. As Benjamin Franklin, one of their greater statesmen, said back in 1773, there never was a good war or a bad peace.

The author was US editor of the Financial Times, 1968-72

THE ANGLO-IRISH RELATIONSHIP

Complex links in need of nurturing

Garret Fitzgerald sets out a basis for improving neighbourly relations

CERTAIN ENDURING features are built into the Anglo-Irish relationship: the disparity in size between the two countries; historical memories – very different, and of divergent intensity, on either side; and the shared problem of Northern Ireland.

These features of the relationship have given it a complexity with which it is difficult for either side to cope, and have endowed it with a remarkable prickliness. There is a disposition on both sides to suspect the worst of the other, and on the whole it is much easier for Anglo-Irish relations to go wrong than to go right.

A constructive development of such a sensitive relationship needs fairly constant hard work on both sides. On Britain's part this requires a more continuous effort than that country has usually been able to maintain, given its many other preoccupations; on Ireland's part it requires the continued rejection, which is also difficult to sustain, of a historically conditioned tendency to blame Britain for almost all past and present ills.

Two developments of the past 15 or 20 years have modified in different ways these parameters of the Anglo-Irish relationship: Irish and British entry to the EC and the development of sustained violence in Northern Ireland.

The effect of the two countries' membership of the European Community has been positive on both sides, but especially perhaps in the case of Ireland. First of all, on Ireland's side the smothering Anglo-centricity of the earlier exclusively bilateral relationship has been replaced by a much more relaxed multilateral relationship within the Community. Ireland's success in the EC, in terms of the uniquely large net transfers of financial resources through the Community Budget, (now in excess of 5 per cent of Irish GNP) has, in part at least, reflected a re-focusing of Irish diplomatic efforts away from Britain and towards a wider horizon. Moreover, the contrast between the positive role that Ireland is perceived by its Community partners as playing there and the negative view of Britain among continental EC countries, has done much to enhance Irish self-confidence, especially in relation to Britain.

Another largely uncovenanted bonus of Community membership has been the widening of governmental and political contacts between the two countries beyond the narrow focus of bilateral Anglo-Irish contacts which since the early 1970s have been largely concentrated on the issue of Northern Ireland, with all its capacity for heightening tension between Ireland and Britain. For the first time since Ireland became a separate state, a wide range of ministers from both countries have got to know each other and in general to respect each other.

Divergences that frequently emerge between the two countries on Community issues – reflecting, incidentally, the quite fundamental differences between Irish and British economic interests that provide what might be described as the "rational rationale" for Ireland's independence of Britain – are debated and settled within this multilateral framework without generating any of the heat which so easily arises in relation to disagreements in bilateral relations.

It will be for historians to determine as best they can the extent to which experience of working not just together but also, unemotionally, against each other in this wider multilateral forum, contributed to making possible the kind of negotiation that was necessary in order to secure the Anglo-Irish Agreement of 1985. I think myself that it was a not unimportant factor.

Northern Ireland itself has posed, of course, a very particular problem for Anglo-Irish relations. On the Irish side, what was seen as the injustice of the act of partition in 1920, and the subsequent disappointment at the outcome of the Boundary Commission in 1925, led to an enduring sense of bitterness. This was intensified by disillusionment at subsequent British acceptance of discrimination against Nationalists in Northern Ireland up to the time of the belated reforms that followed the violent events of August 1969.

From 1970 onwards the widespread, and at times indiscriminate, harassment of Nationalists by the security forces including the British Army, which involved such events as the mass shooting of 13 people in Derry in January 1972, introduced a new negative factor into the Anglo-Irish relationship, while a further negative dimension was provided by the failure of the British Government to provide the necessary support for the Sunningdale power-sharing Executive against the Loyalist Strike of May 1974. Finally, the handling of the Hunger Strike in 1981, (which as the Irish Government had reason to believe at the time and as has subsequently been reported in the Mallie-Bresford book on the IRA, appears to have involved a highly damaging attempt at direct negotiation with the IRA), gave a major and highly dangerous boost to that para-military organisation.

Confrontation in Northern Ireland: a demonstration in 1972 against internment

Mrs. Margaret Thatcher for Britain and Dr. Garret FitzGerald, the then Irish prime minister, shake hands after signing the Anglo-Irish agreement in 1985.

All these events cumulated to make both much more difficult and at the same time even more necessary an attempt to find through negotiation a common Anglo-Irish approach to the Northern Ireland problem. The danger to both countries of continuing to pursue different policies, with sporadic attempts to harmonise these divergent approaches through diplomatic channels, often under the spotlight of media attention, was too great to be tolerated further.

The risks involved in this new approach were formidable, more especially because of the exceptional difficulty of judging just how public and political opinion in Great Britain, in the Irish State, in the Nationalist community in Northern Ireland and in the Unionist community there, would react to a completely novel approach to this tangled problem.

Probably both governments' calculations of reactions in these four different sectors of opinion were in one degree or another slightly wide of the mark – with a measure of under-estimation of both favourable and unfavourable reactions, albeit all within a foreseen range of possibilities. What, perhaps, was not foreseen, because of a tendency to concentrate on these four sectors of opinion separately, was the extent of the favourable impact of the Agreement on the relationship between Britain and Ireland, and the revelation that this traditionally sensitive and prickly relationship had an uncalculated capacity for warmth on both sides.

Like so much else in Anglo-Irish relations, it is paradoxical that the persistent efforts of the IRA to generate and intensify mutual hostility not only in Northern Ireland but also between the two communities between Ireland and Britain, should in the end have produced a result so much the opposite of what was sought by them.

There should never be any complacency, however, about the Anglo-Irish relationship; it retains, and for an indefinite future will retain, an almost infinite capacity for going wrong – unless constantly and vigilantly nurtured. To this end attention might now be usefully directed towards reviving and giving more concrete shape to the provisions for an Anglo-Irish Council which were agreed at a summit meeting between the two Heads of Government in 1981 on the basis of joint studies initiated at earlier Anglo-Irish summits in 1980.

A useful element in this process would be the establishment of the parliamentary tier of this Council, agreed in principle in 1981. It is hoped that some concrete progress towards this objective can be made in 1988, following up inter-parliamentary discussions which took place in London in April last year.

The author was Prime Minister of Ireland 1981-82 and 1982-87.

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100 years of good Financial Times.

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1969: £573.3 million
1970: £628.2 million
1971: £697 million
1972: £798.6 million
1973: £1 billion
1974: £857.1 million
1975: £1.2 billion
1976: £1.3 billion
1977: £1.8 billion
1978: £2.1 billion
1979: £2.4 billion
1980: £3 billion
1981: £3.5 billion
1982: £4.6 billion
1983: £5.6 billion
1984: £6.8 billion
1985: £7.9 billion
1986: £10.2 billion

In 1888, the Financial Times was a fledgling in the financial world.

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THE FIRST 100 YEARS

THE RUSSIAN REVOLUTION

THE RUSSIAN revolution is not likely to be left out of anyone's short list of the major events which, over the last 100 years, have helped to shape the world as we know it. It is gratifying, therefore, to find that it was already identified as "one of the most important events in the world's history" by a writer in the Financial Times, George Loader, as early as March 21, 1917 - a mere five days after the paper carried the first reports of the Tsar's abdication.

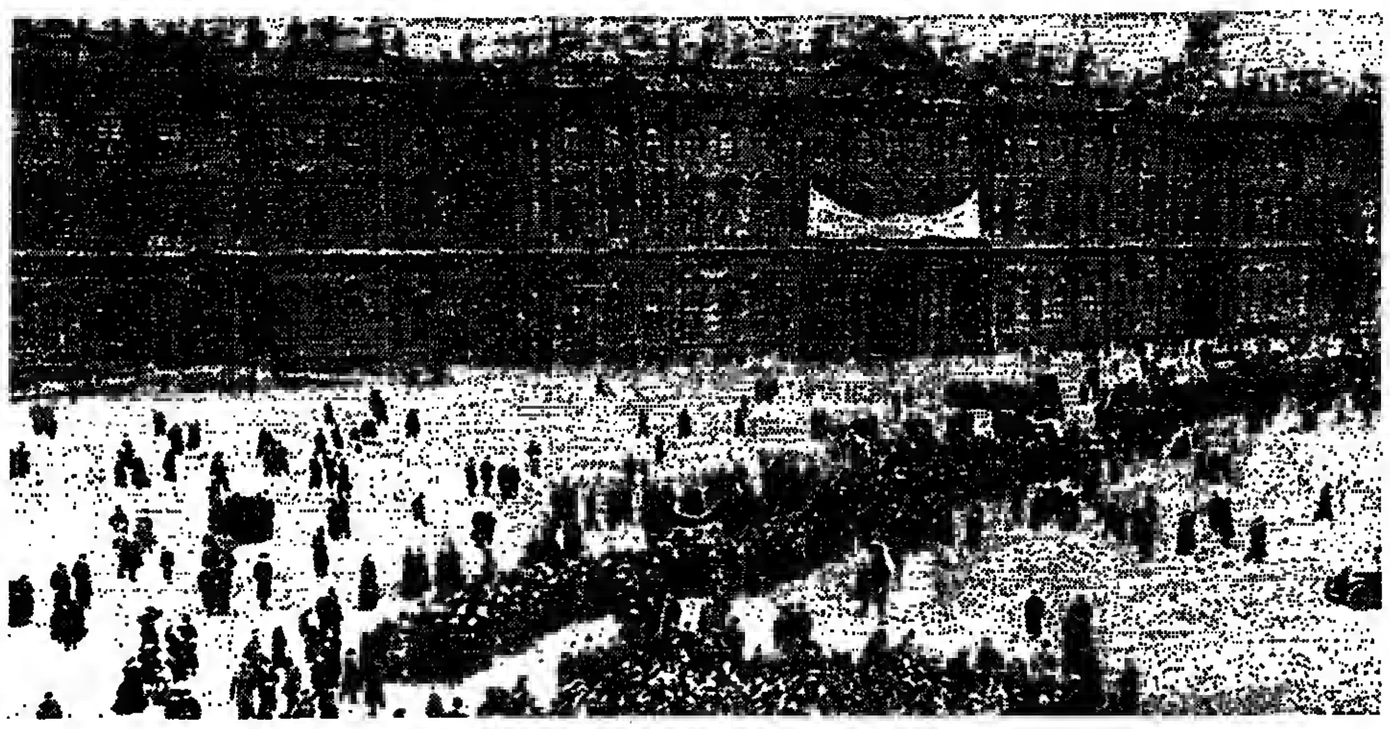
Loader's article was headed "the dawn of a new era", and subtitled - ironically in view of later events - "how British traders may profit". Some passages in it foreshadow one school of Western writing about Russia 70 years later, in the era of perestroika:

"...it is only reasonable to expect that the new Government will yet have many serious difficulties and obstacles to overcome... The "dark forces" of ignorance and reaction which have held Russia in thrall these many years may be counted upon to use every subterranean means to harass and impede the aims of the Revolutionary Government...[But...] everything points to the probability of an immense development in Russian trade.

The country has an area of, 8,500,000 square miles and a population of 180,000,000. Its natural resources in minerals, timber and other products of the soil are practically unlimited, but it will require time and a great deal of capital to develop them... The people have been educated by the war, and coming into contact with Western ideas up to a higher standard of living and their newly-won freedom will give them movement a further notable impetus. There is no assignable limit to the new markets that will be opened up when normal conditions are restored... so that it is most desirable that our merchants should be prepared to secure a firm footing as early as may be."

All this reminds us that there were actually two Russian revolutions in 1917. In historical shorthand the second one - the October, or Bolshevik, Revolution - tends to stand for both. But to contemporaries like Loader the historic importance of the first - the February Revolution - was immediately apparent, at a point when they had probably not even heard of Bolshevism and certainly did not foresee its triumph.

Russia had been recognised since the time of Peter the Great as a powerful member of the European family of nations, but during the 19th century it came to be seen as something more than that: a power capable of dwarfing the rest of Europe once it had realised its vast potential. Like the United States, it was a "European" power, but with the advantage of having another continent as its hinterland in which to expand.



Demonstrations outside the Winter Palace in St. Petersburg, 1917

The promise of a new era

Edward Mortimer on the initially enthusiastic response in the West to the events of 1917

But until 1917 neither of them quite seemed to make its full weight felt in European affairs. America deliberately held aloof, clinging to the Monroe Doctrine, while Russia suffered severe humiliation at the hands of Japan in the war of 1905 and then, even though allied to France and Britain, could barely hold its own in the epic struggle against Germany which began in 1914.

Contemporaries attributed this under-achievement to the antiquated, despotic nature of the Russian political system. When Britain and France became Russia's allies in the struggle against "the enemies of justice and liberty", this Russien despotism was seen both as an embarrassment to them, and as an element of weakness in their alliance. The "dark forces" in Russia were seen to be acting in the German interest, and even – to quote Loader's article agaio – as being "to a very great extent... controlled by German influence".

Hence the enthusiasm and wishful thinking with which Russia's allies greeted the February revolution. "The discontent is not against war, but against the government for not carrying on the war with efficiency and vigour", the *Financial Times* reassured its readers in the very first paragraph of its first report on the Tsar's abdication – an assertion for which the only evidence given was that of the Chancellor of the Exchequer, Mr Bonar Law, whose motives for wishing to believe it were plain enough. As he told the House of Commons with disarming candour, "he would be glad if he could give a reassuring statement".

All through the spring and summer of 1917, the FT atruggled to sustain this hope. On March 17 it hailed the formation in Petrograd of an "anti-German and pro-war ministry". On March t9 it reported that "it will probably be found that Germany has indeed received her heaviest blow at the hand of the Duma. There is now but one desire among the people – to fight oo until Prussian militarism has been destroyed."

By May 21, though, it found it necessary to print a piece by "a correspondent" recalling the "reasons for hopefulness", since the public at large had already fallen into "the reactionary stage of doubt and despondency". Alas, "extreme Socialists and irreconcilables," were playing into the hands of the famous "Dark Forces" but even so "the people have an aptitude for self-government that is perfectly amazing to outsiders." On the main news page the same day, the paper reported with relief that the new Russian cabinet with Kerensky as Minister of War, had rejected the idea of a separate peace.

In the first fortnight of July there were eager reports of the long-awaited Russian offensive, culminating on July 16 in Lloyd George's telegram congratulating the Russian government and people for having, "only a few months after the revolution whereby they won freedom for themselves, struck so great a blow for the freedom of the world".

But a week later the paper had to report "Petrograd In State Of Siege," and "Mutinous Russian Troops – Complete Disobedience Of Orders", as Kerensky in his first act as prime minister announced that "all the leaders of the Maximalist [i.e Bolshevik] revolt will be tried by court martial." Lenin, mentioned for the first time in the FT, was reported as having disappeared.

By July 27, the FT was reporting "Russia's Tragedy", as the army began to crumble before the German counter-offensive. On August 9, the headline read "Russia Recovers – Stubborn Resistance To The Enemy Advance". But in September there was more bad news: first the fall of Riga, then "Korniloff's Revolt" (an unsuccessful right Wing coup against the Provisional Government). Even then the paper tried to keep its readers's spirits up, with the headline "Civil War May Be Avoided", and once again, on September 13, it declared in a leading article that "it would probably be a grave mistake to take too pessimistic a view of the position". Once again tha paper predicted that "after the war there will be almost unlimited opportunities for profitable trade with Russia". Four days later, it reported the encouraging news that Kerensky's cabinet was "in complete control". Kornilov had been arrested, and the Bolshevik newspapers suppressed.

But in October there were more German successes in the Baltic. And then on November 9, the grim news: "Russian Coup d'Etat – Kerensky Deposed". In the following days there were flickers of false hope – "Kerensky Returning – AntiBolshevik Revolt Spreading" etc. – as news trickled in by different routes. But on November 21 came a more accurate report, from a newspaper in neutral Sweden, "that the Bolsheviks now command the whole of Russia, that the people are tired of the war and that a separate peace is expected very soon". Next day it was confirmed that the new government had proposed an armistice on all fronts; and on November 23, under the headline "Amazing Russia", the FT reported that Krylenko, a mere "ensign", had been appointed Commander-in-Chief.

Thereafter the headlines take on a wearily satirical tone. "Russian Millennium – Lenin Abolishes Capital And Land Ownership" (November 24). The armistice on the Eastern Front was reported on December 17, and on December 27 there was a report from Paris of anxiety about the future of Russia's debts to the Allies, totalling £1.6bn: "Whatever hopes may be established in the future it must be admitted that the present financial position is disquieting... It is now generally believed that Russia is not in a position to pay the interest on her pre-war foreign loans unless she can borrow further for the purpose; but what Government or group of banks will advance money to a Government the avowed purpose of which is to bring about a complete social upheaval?"

So the revolution had not, as the FT hoped, released new Russian energies for the war effort. Instead it had turned them inwards, for a ferocious class struggle. And instead of opening up the vast Russian market to foreign imports and foreign capital, it was to isolate the Russian economy from the world capitalist system. Eventually it did find its own way of developing and exploiting Russia's resources, and eventually it did lead Russia to victory in a secood world war, and so to superpower status.

Those things were achieved at terrible cost to the Russian peoples. Could they have been done as well or better without a revolution, or if February had not been followed by October? Those are questions historians will probably still be debating when the FT's second centenary comes round.

■ *"Tha Russian Revolution? You can't stop me shrugging my shoulders. On the scale of ideas it is, at most, a vague ministerial crisis. The problems posed by human existence cannot be dealt with by the misera-bla little revolutionary activity which has occurred to the east of us these last few years. I must add that to call it revolutionary is a veritabla abuse of language."*

– Louis Aragon, French surrealist poet, (later a leading Communist), in 1924.

PROFILE: LENIN

A flexible legacy that lives on

Margaret van Hattem on the man who more than Marx himself founded the Marxist state

A HUNDRED years ago the student Alexander Ulyanov, discovered with a bomb in a Petrograd street waiting to assassinate Czar Alexander III, was hanged.

So fell the pebble that was to start the avalanche. Aged 17 then, Vladimir Ilyich Ulyanov never recovered from the shock of his elder brother's execution. Shunned by the family's liberal circle, expelled from university, exiled to a provincial village, he developed a contempt for bourgeois liberalism and a lifelong commitment to revolution.

Lenin: his main contribution was to formulate practical ways of implementing Marxist ideas.

Lenin's main contribution to the revolutionary movement was to formulate practical ways by which Marxist ideas could be implemented. Marx had assumed the Revolution would evolve naturally; Lenin decided that he must force the pace with a wholly new concept; a highly centralised, tightly disciplined party led by an elite, professing to act in the name of the proletariat.

By the time Lenin had produced his blueprint for the party - the pamphlet, What is to be Done? - there was little which Marx would have recognised as his own.

Marx believed that a new classless *self-governing* society would evolve naturally out of capitalism's collapse and that the state would disappear as it fused with aociety. Lenin, though he theorised in his blueprint for the state - The State and Revolution - on the post-revolutionary withering of the state, did not after all, found a new society. On the contrary, the one-party state he constructed looks, after 70 years, most unlikely to wither away and even less likely to fose with society than, perhaps, with the party.

Marx, the philosopher and theoretician, might have been expected to leave the more enduring legacy; yet it is Lenin whose influence has been decisive in shaping the political systems labelled "Marxist" today.

The principle of "democratic centralism" (with the accent decidedly on the centralism) owes nothing to Marx. The notion of organisation as the key to political power was Lenin's. As the first to seize and retain power on this basis, Lenin has remained the model for aspiring Marxist leaders throughout the world.

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THE FIRST 100 YEARS

THE USSR TODAY

OGONYOK, the most radical of the Soviet magazines, last year printed a cartoon in which an interviewer is pictured holding up his microphone to a small fish tank. "What do you think of *glasnost*?" he asks the goldfish.

Members of the Soviet intelligentsia have been asking each other the same question ever since *glasnost*, which means greater freedom of expression, became a common term in 1986. The debate is dominated by two questions: does the increased ability of people to express their opinions mean that the Soviet Union is really changing and, if so, might these changes be reversed?

The answer to both questions remains in doubt because so far Mr Mikhail Gorbachev's plans for reform have changed very little in the Soviet Union. It is only from January 1 this year that serious economic change is being introduced in Soviet factories.

The real test of *glasnost* will come over the next 18 months as it becomes evident whether or not public opinion is having an effect on the way the Soviet Union is run. Greater freedom of expression will only denote real change when it becomes clear that the opinions expressed influence fundamental decisions facing the country.

The new rules of Soviet politics are still very unclear to everybody from the Kremlin down. When *glasnost* first made an impact in the summer of 1986 it was on relatively anodyne subjects such as cancellation of a vast scheme to reverse the rivers of Northern Russia so they would flow south into the Volga. In Moscow a plan to build a hideous new war memorial was stopped.

These were popular moves but they did not really impinge on the authority of the party. It was only in 1987 more fundamental questions were raised, culminating in the crisis over the resignation of Mr Boris Yeltsin, the radical Moscow party leader in November.

Mr Yeltsin told the Central Committee, which groups the top 300 Soviet officials, at a meeting on October 22 that *perestroika*, Mr Gorbachev's restructuring programme, had achieved nothing and was being sabotaged by members of the party secretariat. In response, Mr Yeltsin was denounced by other committee members and his offer to resign was accepted.

It was clear from the developments during the Yeltsin affair – the first real political crisis faced by *perestroika* – that the top party leadership still calls almost all the political shots. But at the same time the leadership made significant gestures to calm foreign and domestic public opinion, notably by giving Mr Yeltsin a ministerial level job a week after he had been accused of stabbing the party in the back.

Indeed, the denunciation of Mr Yeltsin by middle-ranking party officials showed publicly for the first time the deep resentment they feel at the changes of the last three years. Again and again, they attacked his appeals to public opinion as demagoguery directed against the authority of the party.

There is no question that their anger is sincere. After all, the Soviet party bureaucracy has invariably been appointed from above, with no need to persuade. Few have political talents in the sense of responding to public opinion.

A slow but lasting thaw

Patrick Cockburn believes the reforms now being implemented will be hard to reverse

But although the Yeltsin affair was a setback for *glasnost* it is very doubtful if there can be any return to the censorship of the Brezhnev era. After all, the leadership's monopoly of information, which has existed since the 1930s, was gained at the price of the depoliticisation and consequent apathy of much of the Soviet population.

This is no longer really sustainable. To resolve the problems now facing the Soviet Union, even conservatives at the top can see that there must be changes. They are dealing with a well-educated urban population, in contrast to the 1920s when three-quarters of Russians lived in isolated villages.

The political and intellectual thaw under Mr Gorbachev should also be far more difficult to reverse than the thaw under Khrushchev in the late 1950s and early 1960s. This is because *glasnost* has had a much more widespread impact than the previous period of liberalisation.

Glasnost today differs from the 1960s in four other important respects. First, it appeals to a much wider section of the population – some 12 per cent of the working population have now received higher education compared with 3 per cent in 1959.

Secondly, the real heart of the thaw under Gorbachev is not the "high culture" of poets and novelists in Moscow, as it was under Khrushchev, but journalists such as Mr Vitaly Korotich, the editor of Ogonyok, and Mr Yegor Yakovlev, the editor of Moscow News. Intellectuals in Moscow applaud Mr Gorbachev and have now attained much of the freedom of expression they have wanted since 1917, but few have many ideas about where Soviet society should go from here.

Changes in mass culture have been all the greater because of the influence of Soviet television. In the cities 97 families out of 100 now have a television set, so *glasnost* on television reaches an enormous audience. Television news has only just started to change but critical documentaries and investigative reporting have great impact. It is also clear that a key element in Mr Gorbachev's political success has been his ability to perform on television – the first Soviet leader willing and able to do so.

Mr Gorbachev's television appeal is also vital to his impact on foreign public opinion. This is the fourth reason that *glasnost* will be difficult to reverse: it has dramatically improved the image of the Soviet Union abroad, increasing the ability of the Kremlin to project its foreign policy. Abandonment of *glasnost* would mean giving up these foreign policy gains.

Soviet officials know this and it was evident during the Yeltsin affair in October and November that they were deeply concerned about the impact it was having on opinion abroad. Indeed, the willingness of senior officials to tell more to the foreign media than to their own led to accusations of an "information apartheid" by informal political clubs in the capital.

These factors combine to make *glasnost* and the increased role of public opinion difficult to reverse but the Yeltsin affair also illustrates the rising strength of bureaucratic reaction in 1987. Nominally conservatives demand "*perestroika* without excesses" but this turns out to mean reform of a very limited and authoritarian kind.

Across-the-board censorship does not have to be re-introduced to limit expressions of radical opinion. Television, newspapers and magazines are all ultimately owned by the state or party institutions. Editors can always be leant on or ultimately dismissed.

But this is not always easy to do. Just after the Yeltsin affair in November Mr Korotich, of Ogonyok, said on television: "So far we have just scratched the surface." He said the key element of *glasnost* was to give the public confidence that they could effectively debate and discuss any issue. Despite fears of a clampdown on the Press post-Yeltsin, there is little sign of it.

Resistance to expressions of critical opinion is not confined to conservative bureaucrats. Re-examining Soviet history, notably collectivisation of agriculture, the purges of the 1930s and the role of Stalin, all open up profound divisions of opinion within society which are more than the consequence of misleading propaganda.

For instance, for Soviet intellectuals, who are profoundly antipathetic to Stalin, Mr Gorbachev's attitude to Stalin and the purges is a crucial touchstone for his credentials as a reformer. But for many other Soviet citizens Stalin is also the war leader who triumphed over Hitler and the man who industrialised the country.

Many radical supporters of *perestroika* were therefore disappointed by the conservative historical line of Mr Gorbachev's keynote speech in November celebrating the 70th anniversary of the Bolshevik Revolution.

This may be in part explained by the fact that Mr Gorbachev does not know much about history but it also shows that he is nervous of alienating important sections of the party.

The political situation remains very fluid. Nobody quite knows what will be the relationship between the party and Soviet society in five years' time. *Glasnost* and *perestroika* are now entering a crucial period in that they are affecting critical issues in a way they did not even a year ago.

Struggles between conservative and reforming currents within the Soviet Union are likely to continue for years ahead, as they have done over the past decade in China, with neither side winning a complete victory. But the degree of *glasnost* which will be allowed will be a good barometer of how the fight is going.

Mikhail Gorbachev goes walkabout: the test of glasnost will come in the next 18 months

Continued from page 70

Lenin the man, to judge by contemporary accounts, was a powerhouse of intellectual energy and determination who swept his followers along by his unshakeable conviction that he and he alone was right.

Bertrand Russell remained unimpressed. "When I met him I had much less impression of a great man than I expected. My most vivid impressions were of bigotry and Mongolian cruelty."

Yet there was an emotional, even sentimental, side. The man who sneered at the "saccharin-sweet sentimentality" of famine relief work, refusing to support it in case it delayed the revolution, was once seen in tears over *La Dame aux Camelias*.

In his capacity as leader, Lenin created a political structure which made it inevitable that the party would continue to be controlled by the most skilled tacticians and manipulators, rather than by visionaries. It was his inability, during his last illness, to control the infighting among his impatient successors that was to hand power over to Stalin.

Had Lenin not died at the age of 54, would the history of the 20th century have been different?

Convinced though he was of his virtual monopoly of political wisdom, Lenin's thinking remained surprisingly flexible and continued to develop throughout his life, leading to such U-turns as the introduction of the New Economic Policy (NEP) of the early 1920s, which restored banking, the stock exchange and private enterprise. The task of a revolutionary party, he explained, was "to be able to remain loyal to its principles during all the compromises that may be necessary. Would one climb a mountain by the direct vertical route in preference to a zig-zag path?"

Who can tell where that zig-zag path might have taken him and his people? As the Financial Times obituary commented on January 23, 1924: "It is not the least remarkable thing about this extraordinary man that at the time when his mental and physical forces were obviously failing he should retain unimpaired his personal ascendancy over his followers and inspire them and hold them together on the great retreat."

It has been left to his most recent successor to continue that retreat. Fortunately, Lenin left behind a canon of theories and ideas so full of contradictions and incompatibilities – second only to the Gospels – that it has been possible to cite him for support for almost any theoretical or political course.

The FT obituary again: "No statesman has had a greater failure than Lenin; few men can have admitted their failures so frankly; and few have succeeded in setting their country on the upgrade, as he appears to have done."

The appearance proved deceptive. The combination of his rigid party structure and his ideological flexibility left Stalin ideally placed to seize and exploit absolute power.

Still, Lenin's legacy lives on. Today's Soviet leadership, recognising the path the Soviet Union's past leaders have taken as ending in a cul-de-sac, can blithely cite NEP and thereby claim Lenin's seal of approval for a return to his market-oriented reforms.

THE EMERGENCE OF MODERN JAPAN

Barges on a Tokyo canal in 1888 – the country was being swept along by the winds of change

Success is a testament to gift of adaptability

Jurek Martin charts Japan's change, devastation and rebirth

ONE OF the most well-worn cliches says that Japan has never experienced a revolution, or indeed even much of a threat of one, generated from below. This is perfectly true, yet twice in the past 120 years Japan has undergone revolutionary change: and in both instances it was change that within a short period was to have an impact way beyond its own boundaries.

In 1868, the feudalism of the shogunate was disposed of with the restoration of the Emperor Meiji. Winds of change swept through Japan at such a pace that, having missed out almost completely on the formative years of the industrial revolution, the country was able within 40 years to beat one world power, Russia, in war and to sign a treaty of equals with another, Great Britain.

In 1945, Japan was a devastated, defeated nation. Only Kyoto of its 117 largest cities had been spared massive bombing, while two, Hiroshima and Nagasaki, had been visited by the ultimate sanction of the atomic bomb. Around 670,000 of its citizens had been killed at home and well over 1m on foreign soil; its industrial and social infrastructure, the latter sparse in any case before the war, was in ruins; it had difficulty even in feeding itself and yet, with the return of 7m Japanese from territories occupied during the war, there were more stomachs to nourish in 1946 than there had been in 1941.

Yet 40 years later Japan stood as the second largest economic power in the non-communist world and as the second largest creditor nation, behind only Britain. Having been brought to ruin by a wave of nationalism and militarism, which had increasingly brooked no dissent, it prospered as an eminently stable nation, with all the trappings and some of the substance of democracy and without a significant independent military capability. It had discarded the prevailing nationalistic ethos of the 1920-40s as ruthlessly as it had the 270-year legacy of the shoguns but it remained, in countless ways, a nation like no other.

There is, however, one enormous difference between the two Japanese revolutions. In the years following the Meiji Restoration, the country was invaded by ideas and techniques, but for the seven years after 1945 it was actually occupied. More than that, the US Occupation, under the presiding proconsular genius of General Douglas MacArthur, was no passive power, intent merely on keeping order. It presented to Japan, and engaged it in, a reformation the likes of which no nation of comparable size and importance has experienced in the 20th century. The success of Japan today stands as a testament both to its accomplishments and to the adaptability of the Japanese to an entirely different environment.

Obviously, it is always easier to build a new edifice when the old is so totally destroyed and discredited. MacArthur himself noted in his diaries less than a week after the Japanese surrender that "it was just 22 miles from the New Grand Hotel in Yokohama to the American Embassy, which was to be my home throughout the Occupation, but they were 22 miles of devastation and vast piles of charred rubble." Sensing that people had nothing to eat, he ordered 3.5m tons of food from Washington; when the Pentagon demurred, he cabled back, immortally, "Give me bread or give me bullets."

But he also divined that the need – and hence the opportunity – was as much spiritual as material. "It was not merely the overthrow of their military might," he wrote, "it was the collapse of a faith, it was the disintegration of everything they believed in and lived by and fought for. It left a complete vacuum, morally, mentally and physically." The Occupation's duty, as defined by the Supreme Commander, was to fill the void.

In retrospect, it was a stroke of genius on MacArthur's part to resist pressure from Washington and not to consign to the "charred rubble" the symbol of Japanese militarism – the Emperor himself. He required Hirohito to renounce his deity but he also transformed him into another symbol for his nation, that of a man, not a god, who could "endure the unendurable," as the Emperor had called on his country to do in his surrender broadcast. Historians still dispute Hirohito's culpability, or otherwise, before 1945, but there seems less doubt that this essentially modest man was better suited to the more humble role MacArthur assigned him. Once the Japanese had got over the shock of seeing their Emperor among them, in his baggy suit, talking about ordinary things, they seemed to derive some sense of confidence that not everything had been destroyed.

But much, of course, had been. Demilitarisation was inevitable, and was to be enshrined in the Japanese Constitution, specifically Article Nine, which renounces "the right of belligerency of the State." Moreover, civilian control over what was to become the Self Defence Forces – the constitutionality of which is still a matter of debate in Japan today – was thoroughly established and has not subsequently been called into question.

Demilitarisation also meant the prosecution of those who had actually waged war and a large purge of those in the bureaucracy and industry who had plotted it and fed it with material. Thus it was the intent of the Occupation to end the industrial hegemony of the *zaibatsu*, the great family-based trading conglomerates. Wholesale land reform, limiting individual holdings to about 7½ acres, was similarly designed to spread power and wealth more widely. In the first case, it soon became apparent that the *zaibatsu* were indispensable to the reconstruction of Japan and the dissolution programme came to a halt in 1948, yet the companies never really regained the overwhelming political preponderance they had enjoyed between the wars.

Land reform, however, has endured, though, 40 years later, its consequences are not always considered so beneficial. The Occupation's plan was to promote political pluralism in Japan but the outcome was to provide conservative politicians with a rural stronghold that still dominates the political scene; the fragmentation of agriculture has also created a high cost sector determined, through its political connections, to maintain what even many Japanese now see as an unacceptably high level of protectionism. But, in the years after the war, land reform certainly helped the Japanese to feed themselves and indisputably defused an obvious source of social and political discontent.

The overriding purpose of the Occupation was to give Japan a system of government efficient unto itself and containing the sort of checks and balances that could prevent a recurrence of extremism. The mechanisms principally reflected prevailing Western values of the time. Integral parts included universal suffrage (previously only Japanese men over the age of 25 could vote), the creation of a bicameral legislature along broadly British lines, the establishment of free trade unions and the rebirth of left-wing parties. Decentralisation was a principle, in government and in areas like education, introduced for the first time in Japan as a universal right.

Not all the innovations were alien to Japan, in that the Meiji period had introduced democratic institutions, before, up until the early 1930s, settling down, in practice, to government *by genro*, or elder statesmen. Nor were they controversial at the time among Japanese, whose reverence for MacArthur, their progenitor, was boundless and who had no objection to the new freedoms he was giving them. Within a month of the end of the war, he had lifted all restrictions on political, civil and religious liberties and released all political prisoners; a free press was reborn, free so long as it did not criticise the Occupation, which, dutifully, it did not; Akira Kurosawa, the incomparable director, had made his first film, *No Tears For Our Youth*, a paean to Japanese women, by the end of 1945.

But systems need people to run them and MacArthur was determined that the Japanese should not see the Occupation's handiwork simply as an imposition by the conquering power. Thus the Japanese government and Diet continued to function, even though, initially, both were largely stuffed with holdovers from the wartime regime and even though real authority lay with the Americans.

In this respect, the imprisonment and trials of those designated as war criminals and the purge of over 200,000 wartime fuoctionaries helped bring about the rapid rise of those largely untainted by the past. The most illustrious of these was Shigeru Yoshida, a Foreign Ministry official of no prior political experience, who promptly became Foreign Minister and who was to emerge as the most important Japanese Prime Minister of the immediate post-war generation. Among others encouraged, albeit with ambivalent feelings, to think about a political career was a young naval officer called Yasuhiro Nakasone.

And change was rapid. On January 1, 1946, the Emperor renounced his deity; by March, the new Constitution, largely drafted by MacArthur but endorsed by Hirohito, had secured the grudging approval of the Cabinet and the old Diet; by April, general elections had been held, in effect a plebiscite on the Constitution, with supporters of the new regime sweeping into office. Thus MacArthur had the answer to his critics among the Allies, who thought he was being too soft on the Japanese, and the Japanese themselves had a system with which they could live and work. What they did with it is, so the saying goes, history.

PROFILE: YASUHIRO NAKASONE

Nudging the nation to a full world role

Jurek Martin on an influential Japanese prime minister

IN A society which places so much emphasis on consensus and collective effort, the role of the individual is often relatively discreet. But three politicians, all Prime Ministers, do stand out as seminal forces in post-war Japan. Shigeru Yoshida, in office, with one short break, for eight of the immediate post-war years, managed with great integrity and imagination Japan's emergence from the ruins of war. Kakuei Tanaka was Prime Minister for only two years, 1972-74, but shaped the Japanese political system in his own image for the best part of a generation.

But the man whose career started with Yoshida and reached its apogee thanks to Tanaka and whose policies and attitudes can be said to reflect all the contradictions of modern Japan is, undoubtedly, Yasuhiro Nakasone. He ran the government from 1982 to 1987 and guided it, albeit haltingly, down paths of internationalism which it had not explored in years. Yet, simultaneously, he sought to evoke older, quintessentially Japanese values.

Nakasone is not a man whom the Japanese like much. There is a flashiness to him which sits ill at home. He used to revel, sometimes too publicly, at being known as the "foreign" Prime Minister. He liked to bypass the system, appealing directly to the nation and contracting for expert advice from outside the official establishment of businessmen, politicians and bureaucrats. For years, he was nicknamed "the weathervane" for the apparent swivelling of his positions to meet each available opportunity.

His darkest critics contend, however, that he is a man of deep and unpleasant principles, a nationalist of the old school dressed up in contemporary and more acceptable clothing. They cite his career in the Imperial Navy, his long association with some of the murkier figures of the *ancien regime*, his relationship with the author, Yukio Mishima, whose literary genius somehow co-existed with a nationalistic fervour that led, inexorably, to his spectacular suicide in 1970.

Yet this indictment and the mistrust in which he was held by his peers must be set against a record in office which few, if any, Japanese prime ministers since Yoshida can lay claim to. For Mr Nakasone's achievement was not merely to recognise but, critically, to give policy voice to the proposition that Japan was no longer simply a small island devoid of all natural resources save the ingenuity of its people. Japan, he argued, was, and should be, a full player in the community of nations.

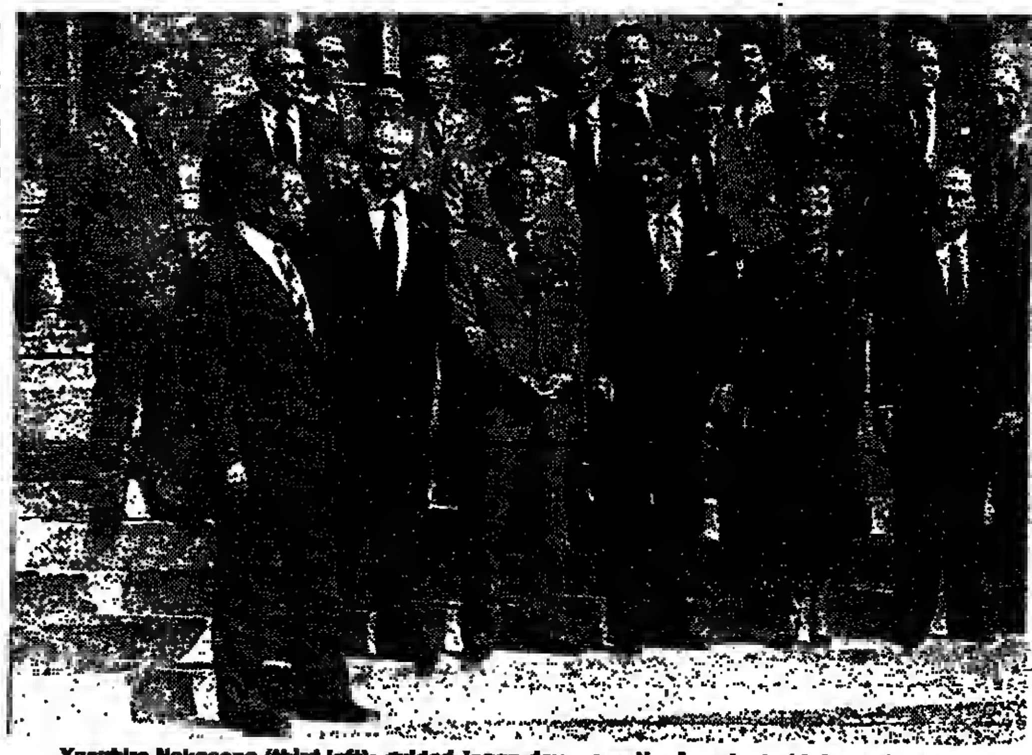
Concomitant on this, and easily the most controversial aspect of his term in office, was that Japan could not and should not sweep under the carpet of history everything that had happened before the final defeat of 1945. He called it *the* "settling" of the post-war accounts and not all of what he meant was tactfully conveyed to the outside world. But his message was principally internal in any case. He stressed the benefits of an homogeneous society, the virtues of traditional family values and the need to look back in order to rediscover the present. In another country less sensitive to its recent past sins, he would perhaps be seen as no more than an orthodox conservative.

And, in many ways, this is also the essence of Nakasone. Success in the labyrinthine world of Japanese politics, dominated, as it has been, for the last 40 years by the conservative party, requires an ability to conform. By even the standards of the Liberal Democratic Party, Nakasone was, for years, to be found on the right, but never so far to starboard as to be lost at sea. He could and did wheel and deal with the best of them, including, vitally, Tanaka; and he served his apprenticeship in low jobs and high ones, including a stint as Minister of International Trade and Industry and, to his mind most significantly, as head of the Defence Agency.

It helped him that he got on well with Washington and indeed, as the conservative tide flowed in the 1980s, with other Western heads of state. Even his countrymen rather liked his ability to deal with other heads of state as equals, an appreciation that his international peers usually corroborated. His smashing election victory of 1986 was, in good measure, a personal endorsement.

He brought distinctive style and reasonable substance to his country's conduct of external affairs; even a long-serving Prime Minister like Eisaku Sato (1964-72) could not stake a comparable claim; even Mr Sato's staunchest friends could not understand why he won a Nobel Peace Prize.

The Nakasone legacy could take some time to come to a flowering. But there is evidently a generation of younger Japanese on the threshold of power and policy-making who, whatever they think of the man as a person, sense that he has nudged the country in the right and irrevocable direction, looking outwards at least as often as upon the national navel. And, by Japanese standards, Yasuhiro Nakasone is still an awfully young elder statesman.



Yasuhiro Nakasone (third left): guided Japan down a path of neglected internationalism

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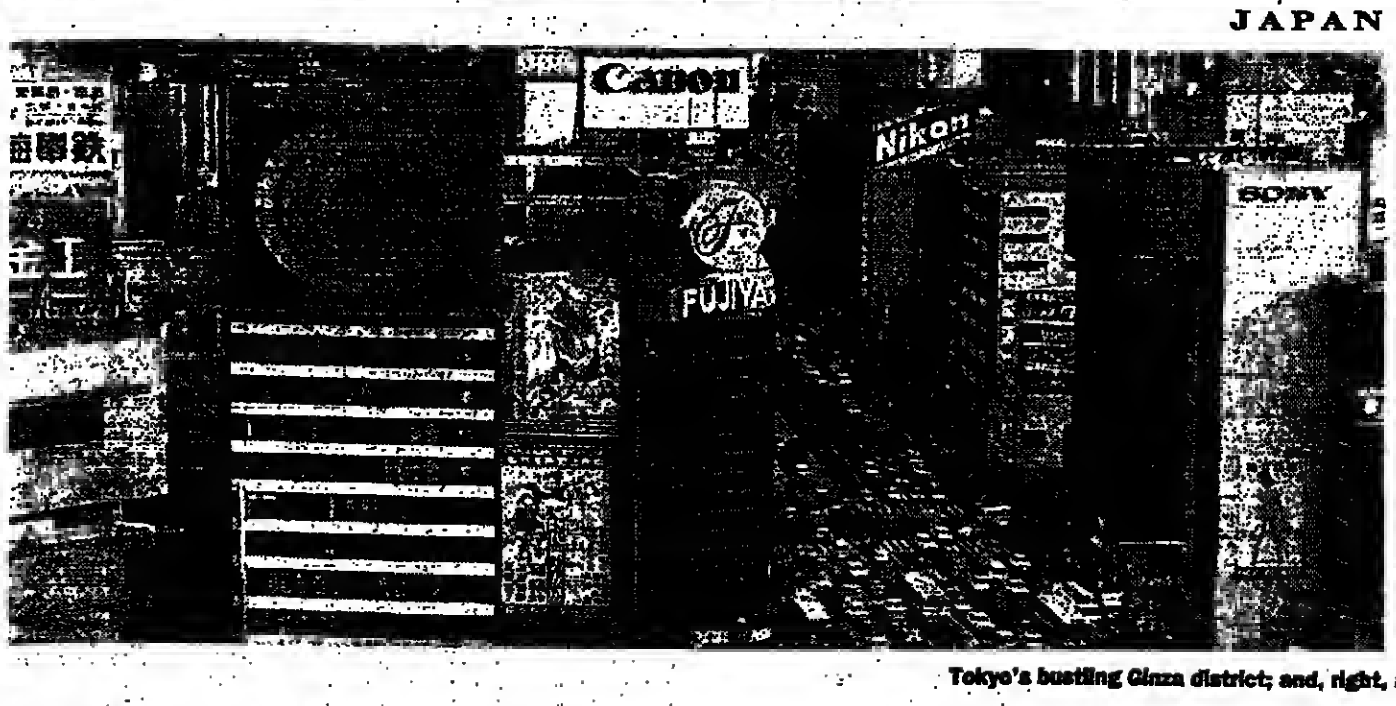
THE FIRST 100 YEARS

JAPAN TODAY



Tokyo's bustling Ginza district; and, right, at Tokyo Disneyland, a meeting of East and West.

Prepared for the wider world stage

The Japanese have rediscovered much of their former pride, says **Jurek Martin**

IT IS not difficult to describe modern Japan, to point to its achievements, its deficiencies and its contradictions, and to explain, mechanistically, how it has all been done. Getting inside the Japanese skin, however, is much harder, rather akin to peeling an onion; for each successive layer that is removed, the tears flow faster and faster.

Certain salient characteristics of contemporary Japan can, however, be identified, with at least some certainty. The most obvious, and least surprising, is a very intense form of nationalism, now mostly, and fortunately, inner-directed.

Internationalisation may be the creed by which the Japanese government and its great companies notionally live today, but it is a doctrine which never seems to sit easily even on those who run the country. A cursory study of Japanese history, with its repetitive pattern of isolation, emergence and defeat, surely contains some clues; it often feels safer in a national cocoon.

Mr Yasuhiro Nakasone, Prime Minister from 1982-87, was known for his international statesmanship. Yet his real passion, throughout a long political career, was for a redefinition of Japanese nationality and a rediscovery of Japanese pride. He called it "settling the accounts" of the last war, by which he seemed to mean not only acknowledging past mistakes but learning again some of the old virtues for which there is no need for shame. Certainly he wanted a reaffirmation of the Japanese identity, social and cultural, which he felt was being subsumed by alien values.

Another constant, sometimes at odds with the above, is that of pragmatism. In other words, if it is not broken, do not fix it; if it is, then mend it properly. Into the first category, indisputably, comes the political system, which has produced an uninterrupted conservative government for the last 40 years. Every thinking Japanese knows that the electoral system, unbalanced in favour of the conservative countryside, is inequitable, but few are inclined to throw out a regime which continues to deliver the goods. Even the opposition parties, distressingly modest in their ambitions for a supposed democracy, seem to accept this state of affairs as quite natural.

But the ruling Liberal Democrats, whose policies are neither liberal nor democratic, have also shown themselves alive to the dangers of one-party rule by generating real political theatre in the competition between their own internal factions. The influential daily press, though an integral part of the establishment, takes on the mantle of opposition to government, thus furthering the cause of debate on issues and personalities. Japanese politics, therefore, are rarely dull — but they do not change much either.

Nor, except so far at the margins, has the overall Japanese system of government — a trinity of politicians, bureaucrats and businessmen — been much altered. The almost conspiratorial closeness of their relationship may not be quite what it was in the heyday of expansion before the first oil shock but there is a commonality of interest and a shared sense of national purpose that remains exceptional by international standards. Even a powerful politician like Mr Nakasone was, for the most part, unable to break its grip.

But if something does break, then the talent for pragmatism is best displayed in the shape of crisis management, at which few, if any, countries are better. This is most evident in economic and commercial affairs, nf which good examples abound. The most obvious and recent is the apparently successful adjustment to an escalating yen.

Others woold include the rationalisation of declining industries (steel, shipbuilding, petrochemicals, aluminium) and the absorption of the two international oil shocks, the first of which caught Japan in a dangerously exposed inflationary and hyper-expansionary mode. Yet it was passed through the economy inside a year, just as, it seems, was the latest yen shock. None of the above could have been achieved without close communication and co-operation between the trinity.

Pragmatism has also very mnch dictated Japan's external policies. The relationship with the United States, trade friction notwithstanding, remains solid. The US provides Japan with a security shield and in return Japan has consistently stood four-square behind American policies. The Japanese know perfectly well that spending less than comparable nations on defence has freed resources for commerce; but they also know that no other nation, and certainly none in Asia, wants Japan to re-emerge as an independent military power; there is no evidence that the Japanese themselves are interested in such a coorse of action, which is why the long-running debate over military spending centred on whether it should exceed the extremely modest figure of 1 per cent of gross national product.

There are signs, albeit hesitant, of a recognition in Japan that simply selling goods is not enough. Mr Nakasone certainly gave voice to this proposition and a new generation of less diffident Japanese leaders, in politics, government and industry, seems tn possess wider horizons. There is less of an inclination automatically to follow the US down every path and more than a hint of irritation with current US policy shortcomings, especially in business matters. It is possible the Japanese are beginning to show contempt for the way the US conducts its affairs.

This could logically mean closer ties with Europe and new relationships with China and the Soviet Union. It has already meant the evolution of closer ties with Asian newly industrialised countries, symbolised by the fact that the first foreign excursion of Mr Noboru Takeshita as Prime Minister was not to Washington but to the Asean meeting in Manila. But it does not imply a cutting of the American umbilical chord. Japan may call its foreign policy omni-directional, but few others would.

But it is still most likely, and most logical, that the principal expression of Japanese internationalism will be in the areas of commerce and finance rather than in politics and ideas. The latter could come, but the Japanese also sense that the rest of the world may not be ready for a more politically assertive Japan. Pragmatically, therefore, there is no point in pushing it.

Domestically, two obvious characteristics stand out, and they may be on a collision course with each other. The work ethic clearly still lives in Japan, even if not quite as strongly held by young Japanese as by their parents, who devoted heart and soul to rebuilding the country after the war. All the exhortations of the Nakasone government to work less hard, now renewed by Mr Takeshita, have to date had minimal impact.

According to classical theory, the Japanese work hard for two basic and powerful reasons: to save for the things they must provide for themselves (education, old age, shelter) and for the national wellbeing, because it is universally imbued in every citizen that Japan has no natural resources other than its people. There are signs now, however, that the first imperative is weaker than it was, eimply because of a new phenomenon for modern-day Japan, that of affluence.

Most Japanese still insist they do not feel wealthy and, indeed, it is true that international comparisons, putting per capita Japanese GNP today well above that of the US, reflect shifting exchange rates rather than anything else. But this modest self-perception may only be a conventional defence mechanism, for it is otherwise hard to ignore all the concrete signs of affluence, in terms of consumer spending and lifestyles, as well as the ways by which it has been achieved.

The soaring price of land has given those Japanese fortunate enough to be home-owners (well over half of all households) a personal financial leverage beyond previous expectations; so, prior to Black Monday, had the stock exchange buli market. Long-accustomed to thin pickings and nugatory interest rates from their banka and post office savings, the average Japanese — it is the wife who usually controls the family purse-etrings — has become in the 1980s financially literate, expecting, and increasingly getting, decent returns on investment.

The expectations of a society with money to spend, as well as to save, may be materially different from one accustomed only to the latter. A logical outlet would, of course, be greater demand for, say, better housing, or better roads on which to run the increasingly large and powerful family car. These are, undoubtedly, infrastructural improvements which Japan badly needs; even more important is the need to take care of an increasingly ageing population. But the enhanced sense of prosperous security, real or not, could also interfere with the work ethic.

It might also, over time, weaken one of the most important welds in Japanese society, that of identification with a group. In the workplace this has taken the form of loyalty to one employer — which, in the bigger companies, has been rewarded with lifetime employment guarantees. But there is discernible today among younger Japanese something of a tendency to look for more material short-term rewards. This is most obvious in the financial sector, where a transfer market, improbable in conventional industry, for young talent is emerging.

Yet for every sign of creeping Westernism in Japan there are contrasting reassertions of traditional values. When a subsidiary of Toshiba was found to have illegally snld strategic goods to the Soviet Union it was the president of the parent company who took the rap and resigned; when a young *sumo* wrestling star roughed up his trainer's wife, the dnyens of the sport's controlling body took a 20 per cent salary cut to acknowledge their supervisory failings. (They also kicked the offender out of the game).

This sense of responsibility has mostly been applied inwardly, yet it may also be translatable into the international sphere. Japanese policy makers are beginning to appreciate that, as the world's largest surplus nation, nbligations may run to beyond underwriting the US budget deficit. Most of the responses so far have been cautious, reflecting another indigenous characteristic, but Tokyo is today more alive with ideaa of what Japan's practical role might be than was the case as this decade dawned.

THE MAKINGS OF MODERN SOUTH AFRICA

A Boer picket line in 1900: the Afrikaners lost the war but won the peace

The first acts in the drama

The origins of the present conflict go back a long time, observes J.D.F.Jones

ONE OF THE curiosities in the *History of the Financial Times* which is published this month is that in 1948, when the newspaper was still years short of its great expansion, it maintained staff correspondents in only two overseas posts – Paris and Johannesburg. The explanation no doubt has to do with Brendan Brscken's post-war activities as chairman of Union Corporation, but it is also a useful reminder of the sustained importance of South African affairs to the readers of this oewspaper throughout its entire lifetime.

Indeed, the history of "modern" South Africa has coincided almost exactly with the lifetime of the Financial Times. "Modern" South Africa, it can be argued, dates as much from the 1886 foundation of Johannesburg as from the 1867 diamond discoveries in Kimberley (and there is an additional centenary - 1888 saw the emergence of Cecil Rhodes' diamond monopoly, De Beers Consolidated Mines).

Before the 1880s, South Africa was simply an isolated collection of rural colonial outposts in Southern Africa. The discovery, and then exploitation, of the gold deposits on the Witwatersrand, with low ore values lying at levels that had to be tracked ever deeper, is one of the most remarkable stories of the world's economic development. But that discovery carried social and political implications that have developed into one of the great international dramas of the late twentieth century.

If you exclude the early years – centuries – of insignificant rural colonialism on a continent ill-suited to farming success, South Africa's Whites have a short history (note, for example, that the White population of the Transvaal literally doubled in the space of a couple of years exactly one hundred years ago). Yet the seeds of today's South African conflicts were sown – indeed had taken root – far before the 1948 election which brought the Afrikaners and their National Party (and therefore apartheid) to power.

There were "passes" of a sort for Blacks in the eighteenth century; all the provinces can show evidence of some system of influx control in the nineteenth century; and the *idea* of influx control, that is the setting of official and enforced restrictions on the movement of Blacks was taken up by the new mining industry a hundred years ago for reasons of its own.

As far back as 1844 the Transvaal had resolved that no Black could settle near a (White) town without permission. In 1922 the national Stallard Commission recommended that permanent residence in the towns should be the exclusive right of Whites.

The 1923 Natives (Urban Areas) Act, which brought in compulsory residential segregation of Blacks so as to stop "undesirable mixing" of the races, can only be seen as the official introduction of influx control, one of the main pillars of apartheid. (The next year, 1924, brought the "civilised labour policy" which sought to transfer job opportunities from Blacks to poor Whites.) The 1923 Act in retrospect was one of the crucial events of South Africa's contemporary history, setting the authentic tone of South African life until the present decade in its rigid separation of the racial groups.

The point is that it instituted not just segregation but at the same time its inevitable corollary – the migrant labour system which was to become a fundamental element in the Southern African economy. In his later years General Smuts was to say of segregation that "You might as well try to aweep the ocean back with a broom".

But Dr Verwoerd, a later Prime Minister, would build a whole apparatus of repressive government policy on his view of the Blacks as "temporary sojourners".

The emergence to domination nf the Afrikaners had also been clear many, many years before 1948. The tensions between the local Transvaal Afrikaners and the "Uitlanders" after the gold boom of the 1880s led to the fiasco of the Jameson Raid in 1895 and eventually to the Boer War. The Afrikaners lost the war and won the peace. Back in London those Liberal elements which might hsve held the line for Black interests were also sympathetic to the defeated Afrikaners. The result was that the Act of Union of 1910 was a British abdication: for the sake of a reconciliation between the English and Afrikaner communities the Blacks were in effect permanently disenfranchised – the consequences are being played out today.

With hindsight, it is merely a redeeming feature that Rhodesia and the so-called High Commission territories were in the end excluded.

Meanwhile the scale and impact of the mining discoveries were creating a regional economic system throughout the southern part of the continent – requiring labour, transport, etc. – which lasts to this day despite more recent political divisions. The railway to Delagoa Bay (Mozambique) for example, had been opened in 1895 to challenge the monopoly of the line to the Cape completed a few years earlier.

The First World War gave an impetus to the region's industrial development. International companies began to arrive. In 1917 Sir Ernest Oppenheimer set up the Anglo American Corporation which was henceforth to be – as it is today – the kingpin of Soothern African capitalism.

The Afrikaners were leaving their farms. In 1900 the ten main cities contained only 10,000 of them; by 1959 the figure was to be 600,000. But in the early years of inter-war international depression, that process created a "Pcor White" problem; the solution was to be political – the emergence, after many vicissitudes, including initially a White revolution put down by Smuts in 1922, of an Afrikaner Nstional Party (founded in 1934 with distinct national socialist elements), a painful split in Afrikaner loyalties in the Second War, and the victory of the National Party, on its platform of apartheid, in 1948. " For the first time since Union, "said the new Prime Minister, Dr Malan, "South Africa's our own, and may God grant that it will always remain our own"

There were detinitions implicit in such a statement which would not be left unchallenged by the country's majority Black population. The Blacks had been coming in to the towns from at least the 1880s. Their Congress movement was founded in 1912. The 1913 Native Land Act, laying down a wildly disproportionate separation of land ownership between White and Black, lies even now at the very heart of apartheid, and was to be basic in the emergence of the land pressure, the pass laws, homeland policy and a host of the problems of South Africa today.

Ironically, it also promoted the movement of Blacks off the land and into the towns, with everything that that has since involved – ranging from the speed of the country's industrial development through to the intensity of the country's political difficulties. In this as in so many other ways, South Africa has always been the classic theatre for the playing out of the central theme of the Financial Times' international coverage – the interaction of economics, business and politics.

The author was South Africa correspondent of the Financial Times, 1950-53

SOUTH AFRICA TODAY

Steps towards a new society

Anthony Robinson on the changes both sides must make to end the apartheid impasse

WHAT THE world knows and condemns as "apartheid" – South Africa's codified system of racial domination and privilege – is not dead, as Mr Piet Koornhof, now Pretoria's ambassador to Washington, declared in 1979. But the moral and religious fervour with which Afrikaners embarked on their ruthless experiment in social engineering has been replaced by doubt and internal divisions. Most whites, who hold the levers of political and economic power, are aware that their long-term future depends on forging a new society where power and wealth will be shared more equally.

But if apartheid is dying, its death is likely to be difficult and protracted given its deep historical roots and the strength of white fears. Like Mr Gorbachev's *perestroika*, the retreat from ideology and privilege is likely to be a process measured in decades rather than months, creating new problems as fast as it tackles the old.

The traumatic event which in retrospect marks the beginning of the transition to a post-apartheid society was the bloodily suppressed Soweto rising of 1976. Less than a decade later, the scale and intensity of the subsequent township revolt, and the growth of black "alternative power structures" briefly encouraged a belief that the transition could take place rapidly through violence and the physical overthrow of the Pretoria regime.

Foreign and radical black support for sanctions and disinvestment was based largely on this "one final push" theory.

But the fallacy of such thinking was forcefully underlined when Pretoria proclaimed a state of emergency accompanied by a black-out of television coverage of unrest and tight media restrictions. The National Party Government, which controls the best equipped army in Africa and large security forces, demonstrated that it had huge reserves of power and was not in danger of being overthrown by virtually unarmed township mobs or by a handful of armed African National Congress (ANC) guerrillas infiltrated from the economically dependent front-line states.

Repression, however, is merely a means to maintain order and buy time for the implementation of social, economic and educational reforms aimed at creating a black middle-class as the pre-conditions for eventual power-sharing negotiations.

Nevertheless, the present stalemate between a Government able to coerce but unable to secure black support for its own limited constitutional plans and an ANC unable to convert large-scale passive support into effective pressure, will have to change drastically before real negotiations begin. The Government, for example, will have to concede a meaningful role for blacks in central government. The ANC will have to acknowledge that it is only

Repression is merely a means to maintain order and buy time for essential reforms

one, albeit potentially the most significant, of several black organisations and seriously reconsider the wisdom of continuing to attack Pretoria at its strongest point, precisely its military superiority.

Meanwhile, the Government's strategy of laying the foundations for the growth of a black middle-class has gained it the support of many English-speaking whites. In the process the National Party is losing its exclusive Afrikaner tribal nature and becoming a centre party similar to the old United Party of General Smuts.

What happens to the National Party is crucial. At the whites only election in May last year some 30 per cent of the white electorate voted for the Conservative Party whose declared policy is not to transcend apartheid but to implement it to the full. Its aim is to carve out a "whites only" state in which blacks would be reduced to the status nf foreign *Gastarbeiter*.

Should another 10 per cent of the white electorate opt for the "Rip van Winkle" solution, all bets on a relatively peaceful transition are off.. Educated whites with foreign passports would emigrate in droves, especially the young, while the remaining foreign companies would pack up, the ANC policy of armed overthrow would receive a new lease of life and the townships would revolt again.

It could happen, bnt it is unlikely. South Africa has its share of bigots, stubborn Afrikaner *bittereinders* and hard-line refugees from the former British and Portuguese colonies. But it also has people, of all race groups, who recognise the indissolnble economic inter-dependence of the country and see solutions in terms of upgrading and integrating the Third World segment of society which is mainly black.

Over the last five years black trade unions have given muscle and organisation to black workers and their power is likely to increase. Politically the most important black unions have adopted the freedom charter with its Utopian socialist idealism and its demands for re-distribution of the land and nationalisation of the mines and monopolies.

As much depends on the outcome of this economic debate as the political, although both are deeply intertwined. Apartheid not nnly deprived blacks of political rights but also denied property rights and access to higher education, planting a thicket of prohibitions to hobble black entrepreneurs.

As a result, although blacks now account for roughly 50 per cent nf aggregate consumer demand, they own only 2 per cent of the country's wealth.

Increasing the blacks' share of wealth – by de-regulation, encouragement of black home ownership, share option schemes, township electrification and, even more crucially, better education and training and encouragement of small black business – is the key to rapid development of a black middle and skilled working class. In the process, however, the gap between the First World formal economy and an expanding "informal sector" is likely to widen.

The speed and extent nf South Africa's transformation from an ethnic to a class-based society is crucial to the outcome of the transition from apartheid. Prospects for power-sharing, and the erosion of remaining apartheid laws like the Group Areas Act demand greater equality of wealth and education. By the middle of the next century gold – which accounts for 50 per cent of hard currency earnings will be practically exhausted. By then, the population will be over 80m, unless rapid urbanisation and increasing prosperity curb the birth rate. New export industries and sources of employment will have to be found.

The greatest challenge facing this generation of South Africans is how to create a society structured to use the talents of all its people. The outcome is of vital concern not only to South Africa but to the entire sub-continent. An economically thriving, non-racial democracy in South Africa could be the power-house for regional regeneration. A South Africa racked by racial strife by contrast could lead to a future too ghastly to contemplate.

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AFRICA: THE COLONIAL LEGACY

The European share-out of the spoils of Africa

Thomas Pakenham on the Berlin conference of 1884-85 which fixed the Continent's boundaries

THE GREAT POWERS, so ready to squabble about trifles in Europe, had, by 1888, agreed on the share-out of Africa with surprisingly little fuss.

Somewhat crudely, they had divided the African cake into colonies, protectorates and "spheres of influence". Britain remained the paramount power in South Africa. France stayed overlord of North Africa, and became the new master of the Western Sudan. Portugal kept its ramshackle old colonies along the coasts of Angola and Mozambique.

Otherwise, the cake was cut in many strange-shaped slices. West Africa was shared by four powers: Britain, France, Portugal and Germany. East Africa was split between three: Britain, Germany and Italy. A huge block of jungle in the heart of Africa was allocated to the mysterious Congo Free State. And not a shot had been fired in anger — not by the the agent of one European power against another.

It was the Berlin Conference of 1884-85 that had worked this miracle of diplomacy, helping to sort out some of the most troublesome frontiers, bringing order to the unseemly scramble for Africa, and fixing the rules of the club for a gentlemanly carve-np of the remaining "vacant" territory.

Partition accelerated in the early 1880s and became a wild scramble in the months before the Berlin Conference. Why did it take this form and why did it occur when it did? What was the strange concoction of motives — the mysterious imperatives of trade, strategy, prestige, philanthropy or *lebensraum* — that impelled otherwise sober nations to peg out claims over jungle and desert? Historians agree about little except that, in every European country, different motives predominated.

In France, the main dynamic came from the French army. They taught the French public that the humiliations of the Franco-Prussian war could be redeemed by conquering the Sahara. In Germany, a noisy colonial lobby of teachers and clerks was backed by traders looking for new industrial markets during the world depression.

In Britain, the forward policy was championed by the industrialists of the North, the do-gooders of Exeter Hall, and the anxious strategists of Whitehall.

Whatever the causes, the astonishing fact was that within a few years the map of Africa had changed out of all recognition. For a century, there had been only three African powers of any importance: Britain, France and Portugal (and Portugal was nearly bankrupt). Now there were six. Two pushy new nations had joined the African club: Germany and Italy. There was also a mysterious new member, a self-styled philanthropist, King Leopold of the Belgians, founder of the Congo Free State, the man who had somehow got his hands on what was perhaps the richest slice of the whole cake.

The scramble had caught unawares both Gladstone, who led the Liberal Government and Lord Salisbury, who led the Tory opposition. To men of their generation the thing seemed absurd. Their fathers had laughed at the idea of new territorial conquests. Trade, not territory, was the source of Britain's greatness, and the whole world, thanks to the Royal Navy, was Britain'e unofficial empire.

Then, quite soddenly, that unrivalled position as the world's workshop and shopkeeper had vanished. By the 1880s, Britain was still the world's leading exporter of manufactured goods. But her relative strength, judged by

Bismarck: boundaries have lasted

trade statistics and naval tonnage, was ebbing fast. The protectionists powers — like France — were gaining ground. Too late now for free traders to brood over might-have-beens: how (by swapping tbe Gambia for Gabon) Britain could have grabbed the whole of West Africa, and the whole of East Africa, too, from Mozambique to Egypt. If Britain wanted to safeguard ber markets and her strategic position, she had to swallow her pride, and see what the other powers would concede at Berlin.

In fact in November 1884 the prospects for Britain at Berlin looked as unpleasant as the weather forecast: frozen slush. Bismarck had summoned the conference and Bismarck was playing the colonial card for all it was worth. Strange, as he had always ridiculed the colonial movemeot in Germany, (though he encourasged the French to grab Tunis as a way of taking their mind off the lost provinces of Alsace-Lorraine).

The Reich, he growled, was a continental, not a maritime power. Colonies wonld be a hole in the bucket, a hopeless drain in peacetime. In wartime they would be hostages to enemy fleets.

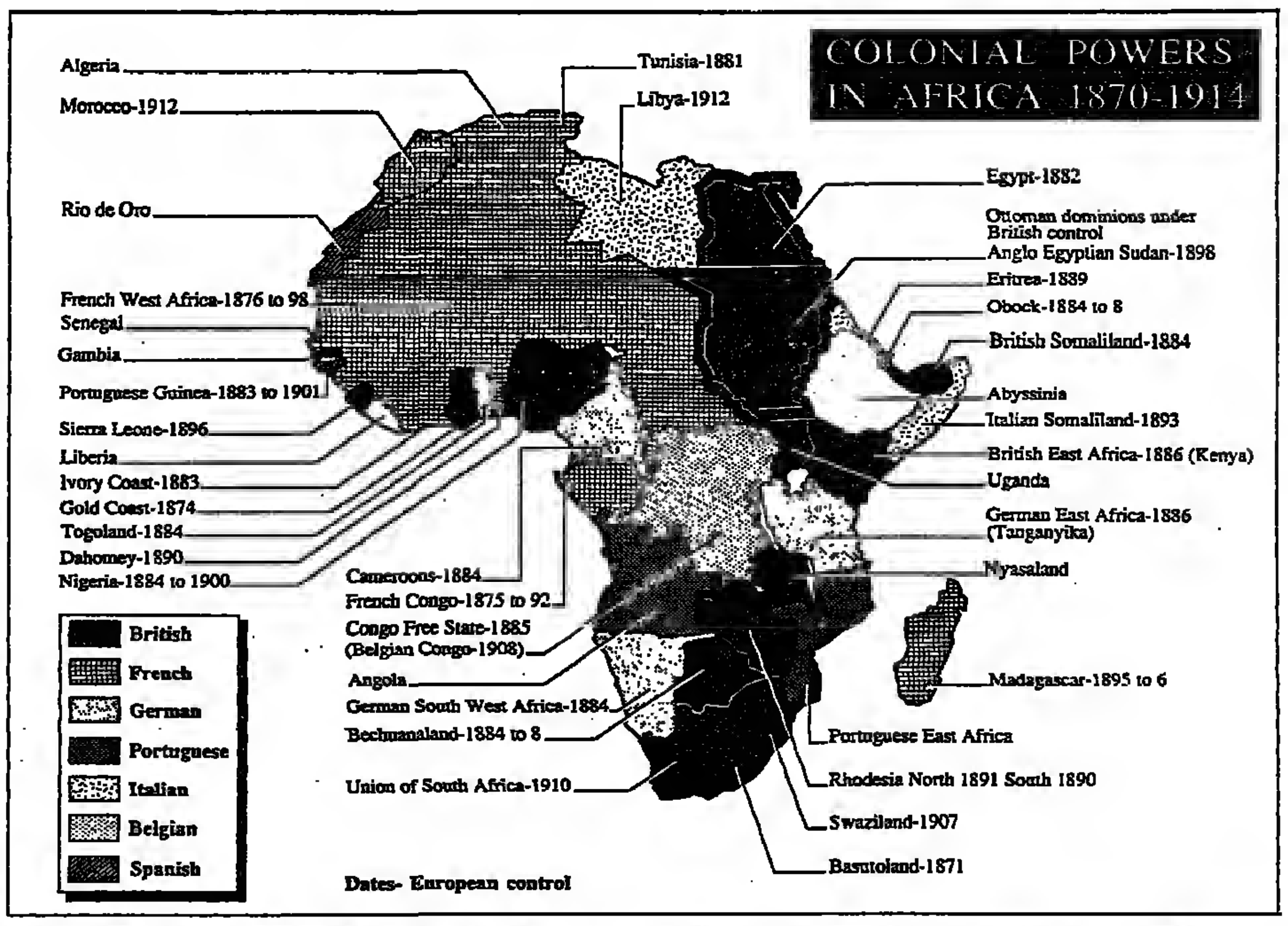
Then in the summer of 1884, Bismarck had astounded his advisers — not to speak of Gladstone's — by snapping up, in quick successioo, three colonies. Two were in the swamps of West Africa: Togo and Cameroon — uninviting enough. But the third acquisition seemed like an impertinence to Gladstone's government. It was South-West Africa, largely desert, but considered a strategic plum, and it had been plucked when the government of Cape Colony was stretching out a hand to grab it themselves. Why had Bismarck changed his mind — apart from the natural desire to woo the colonial lobby before an impending election?

Explanations were tortuous. Was the Iron Chancellor trying to pick a quarrel with Britain simply in order to arrange a *rapprochement* with Britain's rival, France? Or was he merely trying to queer the pitch for the Crown Princess, Queen Victoria's daughter, who loathed Bismarck? (Her husband, the Crown Prince, was expected to succeed the octogenarian Kaiser at any moment).

Bismarck, at any rate, was wooing the French in November 1884. And Britain desperately needed Bismarck's support *against* tbe French for two quite separate reasons. First, the French were outraged by Britain's "temporary" occupation of Egypt which was beginning to look decidedly permanent. With Germany's help, France had just successfully sabotaged Britain'e financial plans for this unofficial protectorate.

Second, the French threatened to break Britain's hold on Niger delta by internationalising the river. And though the British tycoon, George Goldie, who was to run the Royal Niger Company there, after buying up all competitors in the regioo, talked of free trade in principle, he had curiously little appetite for it in practice. Why should he share the rich pickings of Nigerian oil — palm-oil, not fossil fuel in those days — with a protectionist power like France?

On Saturday, November 15 1884 Bismarck, dressed in a scarlet uniform, welcomed the 19 plenipoteotaries to the horse-shoe table in the tall, white vaulted musie room in the Wilhelmstrasse. It was there that be had welcomed Disraeli and the giants of Europe to the famous Berlin Congress of 1878, bungry for the carve-np of the Ottoman empire. By contrast this African conference seemed humdrum enough. The great powers had sent only their local ambassadors. But, from the first day at Berlin, it emerged that two different conferences were taking place simultaneously under Bismarck's patronage. There was the open diplomacy of the formal conference, whose protocols were published in the blue books, and very solemn reading they made. This was the source of The General Act of Berlin signed on February 25 1885. The General Act did useful work defining technicalities, though many of its 38 clauses had lost their teeth after four months at the horse-shoe table. There was also another conference, an affair of secret diplomacy, dramatic enough in its way. And it was this Berlin conference that put order in the scramble for Africa.



The imperialist explosion in Africa: before 1880, very few areas of Africa were under European control, yet within two decades the entire continent had been seized. By 1888, when Lord Salisbury, was Britain's Prime Minister, the process of dividing up Africa had largely been achieved and without resort to arme.

Hitherto, there had only been three colonial power of any consequence - Britain, France and Portugal. Now they were joinad by newcomers Germany, Italy, and Belgium. In the scramble for Africa, tha motives varlad from country to country, but in Britain's case the imperative was protection of her trade.

Would Bismarck egg on the French to drive the British from the Niger? To the surprise of the British — and chagrin of the French — Bismarck had decided not to make mischief after all. He assumed Goldie would provide free trade on the Niger (a rash assumption as it proved) without the river being internationalised. He offered the British full support.

But there was one proviso. They must belp him sort out another difficulty: the future of the Congo. This was potentially even more explosive than the Niger because three sets of covetous eyes were set on it in 1884, French eyes, Portuguese eyes and Leopold's. No one knew what was the economic potential of the Congo. Henry Stanley, who had discovered the main river, was certain the Coogo basin was a treasurehoose of palm-oil, rubber, ivory, gold, diamonds (and he knew nothing of the copperbelt). Bismarck, at any rate, was determined to keep the Congo out of the hands of protectionist France or Portugal. It would come to no harm in the hands of Leopold.

The Foreign Office concurred, despite embarrassment. They did not trust either Leopold's philanthropic aims or his devotion to free trade. But they felt that they had to dance to Bismarck's tune. So did the other Powers represented at Berlin. Before their delegates left they formally recognised the International Association of the Congo as an independent state. It soon emerged that Leopold had fooled them all. They had handed over most of Central Africa to a sbam philanthropist, who ruthlessly exploited the wild rubber to make a vast fortune for himself.

In 1908, the international outrage at "red-rubber" — Leopold'e atrocities — forced the King to hand the Congo over to Belgium. Otherwise, the diplomats could congratulate themselves over their achievements at Berlin. The goodwill generated at the horse-shoe table lasted nearly to the end of the Scramble - until 1898 when a Sndanese swamp at Fashoda almost brought Britain and France to war.

Of course there were to be surprises. In the 1880s, the Portuguese were sure of their destiny. They would absorb the whole of South-Central Africa by making Angola join hands with Mozambique. In 1890 Cecil Rhodes knew better. And then who would have dreamt at Berlin that the Italians would be outwitted by an Ethioplan emperor — Menelik — armed by the French and advised by the Russians? He smashed them at Adowa in 1896. Then he took a large slice of Somaliland and chunks of pagan Africa, and ended up one of the main victors in the Scramble.

A hundred years later the achievements — and failures — of Berlin are alarmingly topical. Take a look at a modern map of Africa. The colours have changed, bnt the frontiers remain. In fact, they have stood the test of time too well. One bas only to think of the bloody civil wars that followed de-colonisation to see the craziness of these lines drawn on maps in Europe by men ignorant of African geography and politics. Yet most African nations accept their frontiers with the mixed feelings with which people accept their parentage. They are their title deeds — the only part of the colonial legacy they dare not tinker with.

Bismarck would bave been astonished. He never cared much for Africa. How strange that his frontiers should be more permanent there than in Europe which he loved and hated.

Thomas Pakenham is the author of The Boer War *published by* Weidenfeld and Nicholson.

AFRICA TODAY

Medicine that may prove too harsh for a frail patient

Michael Holman on the Continent's sad state and the prescriptions being proposed

SUB-SAHARAN AFRICA is gripped by a crisis of near-overwhelming magnitude. The optimism three decades ago that greeted Ghana's independence, marking the start of the post-colonial era on the continent, has vanished. It has been replaced by despair. Debt and drought, dissidents and disease, have left millions of people in misery. Where did it go wrong? And how can Africa recover?

The sad record of the independence years, disfigured by over 70 coups, the emergence of military regimes and authoritarian one-party states, and a steady economic decline, dominate impressions of contemporary Africa. The colonial era recedes into history, less easily recalled. And when it is, the period is often given a Eurocentric gloss, seen as a time when the colonial powers played a "civilising" role in the "dark continent."

From an African perspective, the reality was very different. The colonial era, and earlier contacts with the West, left scars which mark the continent to this day. Africa's crisis is deep-rooted, and in those roots lie at least part of the explanation of some of the problems of today.

When the Financial Times first appeared on the streets of London the continent's most traumatic experience was only just coming to an end – the traffic in slaves to the West Indies and the Americas, sometimes described as Africa's holocaust.

It was, as Basil Davidson writes in his book about the slave trade, Mother Africa, the greatest forced migration in the history of man. Between 1650 and 1850, the period when the trade flourished, some 12m slaves were landed in the Americas, according to one estimate. It is calculated that 2m perished on the journey and 7m died before embarkation. The experience left African communities shattered, villages bereft of the able-bodied, and ethnic states and kingdoms destabilised.

Yet as slavery was coming to an end another traumatic experience was beginning. In what became known as "the Scramble for Africa," Britain, France, Germany, Portugal, Belgium, Italy and Spain all staked territorial claims, in the process usually disregarding the boundaries of the indigenous nation states of Africa and overturning the societies they encountered.

"One of the most serious consequences of European colonisation in Africa", writes the historian Ali Mazrui, in his book, The Africans, "has been the destruction of Africa's own legitimate institutions and structures of authority."

He continues: "The initial military triumph of European power over the local rulers was itself enough of a strain on the historic prestige of indigenous monarchies and institutions of governance. But that initial European military triumph was followed by decades of Europeans overlordship, with policies deliberately calculated to change the nature of Africa's political processes for ever."

Africa's post-independence failure to develop durable and democratic political systems and institutions – an important factor behind the continent's current malaise – is at least in part explained by this upheaval from which the continent has yet to recover.

But the colonial system left its mark in other ways, not least in the area of peasant agriculture. As Professor Michael Crowder points out in a recent essay on Africa's colonial inheritance, local farmers were often, through taxation, compulsory crop cultivation, forced labour and requisition, made to produce "cash crops that the big companies overseas required, even at the risk of impoverishment of the land and famine." Colonial government marketing boards were used as a means of taxing further the potential earnings of the farmer, Prof Crowder adds, and wryly notes: "Yet critics of the independent African regimes seem to suggest that this neglect and exploitation of the farmer was new, rather than a major legacy of colonial rule."

Other features of the colonial legacy have an impact to this day. Britain cannot be proud of the fact that Northern Rhodesia became Zambia in 1964 with barely a dozen university graduates. Belgium's failure to prepare the Congo (now Zaire) for independence and abrupt departure after 75 years of exploitation helped plunge the country into chaos from which it has never really recovered. Portugal's record was no better. Forced in the 1970s to surrender power to guerrilla movements in Angola and Mozambique, they left behind an illiteracy rate that exceeded 90 per cent.

Yet for all the burdens and problems inherited from the past, black Africa was imbued with optimism and enthusiasm as the roll call of independent states rang out in the 1960s. Kwame Nkrumah, independent Ghana's first leader, summed up the mood of African leaders, transposed from humble back street offices where independence had been plotted, to State House: "Seek ye first the political kingdom and the rest shall be added thereto."

Ironically the country that was once an inspiration to Africa became a symbol of what was to go wrong. Nkrumah encouraged a personality cult, muzzled the press and introduced draconian security laws.

An ill-defined, broadly socialist philosophy took Ghana down a disastrous path of of burgeoning state-controlled corporations, prestige projects and unrealistic schemes for industrialisation. Peasant farmers took second place to mechanised state farms, and inevitably production of cocoa, the country's vital export, fell. The same crowds who greeted his accession in 1957 took to the streets to acclaim Nkrumah's overthrow in 1966.

There were exceptions to the Ghanaian model – among them Kenya, the Ivory Coast and Botswana. But for the most part Africa's new leaders espoused unrealistic ambitions and impractical policies, often abetted by Western bankers who were later to discover that they had lent unwisely, or aid donors who frequently had their own commercial interests at heart.

Sometimes the vision was pursued with integrity, as in the case of Julius Nyerere in Tanzania, who regrouped several million of his people into socialist villages for which it was easier to provide social services, but which severely disrupted traditional agriculture.

Some had high ideals, such as President Kaunda in Zambia, striving for a "humanistic" society, but failing to reduce his country's unhealthy dependence on copper and suffering when the price of the mineral slumped in the 1970s.

Others, such President Mobutu in Zaire, merely cloaked the avarice of the ruling elite with socialist or nationalist rhetoric.

All, in varying degrees, failed: neglecting or mismanaging the vital agricultural base, creating inefficient state-owned corporations, cushioning their growing urban populations with subsidies, discouraging the private sector and in most cases spending heavily on the very armies that were to oust many of Africa's civilian leaders.

Few African leaders were equipped to handle a major blow to their aspirations: the economic buffeting which began in the 1970s as oil prices rose, prices for Africa's exports fell, and the cost of post-independence external borrowings became unbearably high as interest rates climbed.

The crisis set in train a profound reappraisal of what had gone wrong, on the economic front at least, since independence. And appropriately enough, it was Ghana that was among the first group of African states, now exceeding 30, that started taking the medicine prescribed by the two institutions that today loom large over the continent – the World Bank and the International Monetary Fund.

Africa itself belatedly recognised that a false economic start had been made when in 1980 heads of state drew up the "Lagos Plan of Action," the first blueprint for reform. But the toughest appraisal came from the World Bank, which in 1981 produced the first of a series of reports on Africa bluntly setting out the scale of the continent's predicament. The record of the past two decades was "grim." External factors, over which African leaders had no control, had indeed done severe damage. But the Bank pinpointed shortcomings closer to home: output of export crops had been stagnating and food production lagged behind population growth.

The Bank's reports have painted a bleak picture. Death rates on the continent are the highest in the world, and life expectancy is the lowest. Nearly a fifth of black Africa's children die by their first birthday. Barely a quarter of the sub-Saharan Africa's half-billion people have access to safe water.

If Africa is to recover, the Bank and the IMF have been arguing, its governments must press ahead with fundamental reforms: devaluation of overvalued local currencies; improved incentives for farmers; an overhaul of state-owned corporations; an end to subsidies, including those on foods; an end to most price controls; strict limits on government spending. Even self-proclaimed Marxist states such as Angola and Mozambique are coming under the umbrella of Western inspired reforms.

Yet this medicine may well prove too harsh for frail patients. Some leaders, such as President Kaunda, argue that the measures are often inappropriate, the conditions too inflexible: "Like a doctor who prescribes quinine, whether you have malaria, a cold or a broken leg," Dr Kaonda complains.

Many observers believe that the reform programme is in jeopardy. The main reason, argues Mr Javier Perez de Cuellar, the UN Secretary-General, is that the Western countries who have long urged Africa to change its policies are not backing the reforms now under way with sufficient additional assistance. In particular, he says, they have not grasped the largest nettle: the need to ease the burden of the continent's $200bn external debt (amounting to almost 54 per cent of black Africa's GDP) by agreeing to concessional rates of interest.

Economically debilitated, often politically unstable, unable effectively to challenge the military and economic muscle that South Africa exercises in its region, Africa faces a further trauma: Aids (Acquired Immune Deficiency Syndrome) is now prevalent in several central, southern and east African states, and it is spreading. Health workers fear that 1m people could die in the next decade, many from among Africa's skilled urban class – civil servants and factory workers, miners and politicians – on whom the implementation of recovery programmes greatly depends.

It adds up to a mounting tragedy of devastating proportions. Most disturbing of all, perhaps, is the possibility that Africa no longer has the adequate institutional capacity to help itself. The one-party systems and the military regimes have wrought terrible damage. The civil service has become subservient to presidential decree and is seldom a source of independent advice. The integrity of the judiciary has been eroded or eliminated. Trade unions have been emasculated. National assemblies often do little more than act as a rubber stamp. The political parties that were formed in the fervour of nationalism have ossified, and for the most part are incapable of inspiring loyalty or galvanising disillusioned citizens into action. And the post-independence generation of Africa is cynical, sad and debilitated.

Africa's resilience in the face of its ordeal remains remarkable. The stoical endurance of its people is extraordinary. But the continent has been generally ill-served by its presidents and generals. Today's crisis requires more than a programme of economic reform, new resources and debt relief. It also needs a new generation of leaders, a fundamental reappraisal of flawed political institutions, and a revival of the nationalist fervour of 30 years ago if an African resurgence is to get under way.

Princess Alexandra presides over a durbar in Accra as part of Ghana's independence celebrations. The country that was once an inspiration to Africa became a symbol of what was to go wrong.

Post independence African leaders: Kwame Nkrumah of Ghana (top left); Julius Nyerere of Tanzania (top right); and (below) Zambia's Kenneth Kaunda

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INDIA: THE ROAD FROM INDEPENDENCE

Britain's last viceroy in India, Lord Mountbatten, chairs the historic New Delhi conference in 1947 at which details of the partition plan were announced. With him are (left to right) Pandit Nehru, Lord Ismay (adviser to the Governor), and M.A.Jinnah, president of the All-India Muslim League.

Steady and turbulent state

The achievements and mistakes since independence are analysed by Pran Chopra

IN THE day-to-day news India comes through as a highly disturbed and unpredictable country, buffeted every wsy by events which it lacks the competence to cope with. In the perspective of decades it comes through as firmly aet on a stesdy course. Both pictures are true.

In the first three years after its independence in 1947, India completed two stupendous jobs. First, it integrated into an Indian Republic more than 500 "princely states", some as large as Britain, which had convinced themselves that, with Britain gone, they were all sovereign now. That done, Indls became the largest state it had ever been. Second, through enlightened, liberal, intellectually vigorous, often brilliant grappling with complex issues, in the biggest constituent assembly ever elected, Indie gave itself a most detailed constitution for an adult franchise parliamentary democracy.

During the rest of the first decade of independence, India developed basic policies and institutions in virtually all major areas of public affairs. These included economic planning for certain identified economic and social goals, increasing the eminence of the public sector in some key industries but with a growing private sector, too, positive discrimination in fevour of the most disadvantaged groups, a secular state, a polity heavily slanted towards a weighted centre, reorganisation of state boundaries according to language and culture (and not shaped, as they had been, by the convenience of conquerors), an independent stance towards global power groupings, and close association with similarly non-aligned countries. These policies marked a distinct break with pre-independence India, which only show that choices were being deliberately made to suit what the new leadership saw as the new needs of free India.

And the choices were made in the swirl of open debste, thus empowering end legitimising them by mobilising the country's mandate for them. Mr Jawaharlal Nehru, India's first Prime Minister, converted electiona into campaigns for national education in these policies. Within the first two general elections he was able to mobilise e netionel consensus around them which embraced perhaps three-quarters of the electorate. In all the years since then, no-one has attempted to topple this consensus in any aerious way: the attack has only been on the margins and details. Except in the metter of relations with Chine, hardly any policy has changed its direction very much. There are not meny parallels for such continuity.

These policies have brought about some major changes of direction despite zig-zags along the way. Traditionally dominant groups, castes and classes have been displaced by newer ones moving up from below, end real transfers of power have taken place from upper to lower levels in the socio-economic pyramid. In rural India power has passed from the non-cultivating land-owning castes and classes to the actual tillers of the soil who number over 100m today. With their rise, political power has shifted from urban to rural India, even though many politicians are still of urban extraction. Within urban India the traditionsl large industrial houses are not so important now as smaller entrepreneurs, most of whom are first generation.

They and the professional classes are the new industrialisers and modernisers. Together with the newly-empowered peasantry, they constitute an enormous new middle class, in numbers about eqnal to the whole European Community, and they are intensely politicised.

These changes have had important socio-political consequences. Development has energised India's diversity, politicisation has triggered demands, and democratisation has created the tools for pressing the demanda. As a result, new centres of power have sprouted smong regiona and classea which were traditionally quiescent.

For a time these changes posed no threat to the unifying, homogenising and election-winning role of the Congress Party. Their impact was cushioned by Mr Nehru's style of politics. His instrument of power was a leadership which, being a collective, was flexible, accommodative, tolerant of dissent, and moved by a consensus built on Mr Nehru'a thoughts. The collective had room for many authentic leaders of different regions and strata, so that most sections of India could identify with the rulers in New Delhi, and the folds of the Congress remained ample enough to accommodate them all.

But Mrs Indira Gandhi, who became Prime Minister in 1966, changed all that within half a decade — and India began to falter. She replaced Mr Nehru's collective with intolerance and her own highly personalised power, which was so unsure of itself that she saw her safety only in the destruction of all rivals within or without the Congress. Two primary changes followed from this, and from them many others. The first was confrontation with all non-Congress parties, the second the destruction of Congress itself when she destroyed the party leadership at all levels in order to surround herself with unquestioning minions.

Mrs Gandhi saw the emerging political diversity as a challenge to her, and proceeded to suppress it. This was one of the main causes of the tensions and violence which led to her proclametion of e state of emergency in the mid-1970s, and to the severe disturbancea after that, broken only during the short-lived, first and only, spell of non-Congress rule in New Delhi by the Janata Government between 1977 and 1979.

Her return to power in 1980 was quickly followed by a holocaust in Assam, bloodshed and nesr-rebellion in Punjab, and acute tensions in Kashmir and Andhra Pradesh. In Kashmir Mrs Gandhi removed, and in Andhra she tried to remove, the most popular governments the two states had ever had. These events made India appear to be reeling from day to day.

With the Congress Party now moribund, Mrs Gandhi fell back on shrill populism and money power for winning elections. The former distorted the economy. The latter spawned a new system of underhand cuts for the party in governmental transactions. For generating the cuts a secretive trio came into being: the unscrupulous politician, the obliging civil servant, and faceless agents of private enterprise who used the situation to undermine economic policies which they had not been able to attack frontally because of popular backing.

The legacy of Mrs Gandhi'a last years still clouds the reign as Prime Minister of her son, Mr Rajiv Gandhi. For example, most of the charges of corruption which have been dragging him down are a legscy of the kickbacks begnn during hia mother's reign, and because of the state to which she reduced the Congress Party he is unable to redeem the pledge he made two years ago to get the party moving again. Without that, he cannot get the Congress-ruled states to catch up with progress in non-Congress states which, led by Communist-ruled West Bengal, are setting up democratic institutions at the grass-roots level. Such states are continuing a "transfer of power" to lower and lower levels of the "have-nots" while in the Congress-ruled states the process has been blocked since the mid-1970s by those who then inherited power. This means that the non-Congress parties are building up strong bases of support for the future, which Congress is not doing.

Mr Gandhi began hia term by vigorously dismantling the worst features of his mother's legacy, for example in Punjab, Assam, Kashmir, and in India's relations with Sri Lanka. But since then some of his good intentions have faded, and those that remain have been hampered by his lack of skill, which experience is doing little to improve. For example, in revitalising the economy, he is making some progress but not enough because he has made the political blunder of calling his policies "liberalisation". His opponents have successfully equated this with surrender of the goals of social justice, which have wide public backing, to a "free market" philosophy, which is unpopular.

Therefore the Prime Minister'a future beyond the next election, dne two years hence, is not very rosy. But the future of India is not tied up with that. The solid base of wide consensus built up in the earlier decades, covering all major aspects of the nation, is still intact. Future auccess is not certain, but doom is not either. In spite of the prevailing gloom, if I were to sum up the present state I would still use the phrase, "Uncertain India", which I used as the title for a book published 20 years ago, reviewing the first two decades. Uncertainty had crept in then because Mrs Gandhi had started breaking up the Nehru consensus. It persists today because of the shortcomings of Rajiv Gandhi. But if he, or someone else, were to decide to build on the base with the bricks and mortar Mr Nehru left behind in plenty, he would have ready to his hand tools which the old man had tested

Pran Chopra is o former editor of The Statesman

PROFILE: MAHATMA GANDHI

A giant of the century

Robin Pauley on the man who freed India from British rule

MAHATMA GANDHI, a diminutive figure from a remote backwater of Asia, became the focal point of a movement which freed India from British rule to become the world's largest democracy. Arguments about him remain; was he as Winston Churchill maintained a half-naked little fakir, was he a brilliantly innovative politician or was he a saintly man of profound religiosity? Whichever, he is a giant of 20th century history.

Mohandas Karemchand Gandhi was born at Porbandar in the tiny state of Rajot on October 2 1869. His father was chief minister of the state and he grew up in an extended family of uncles and cousins together with two elder brothers, an elder sister and two stepsisters.

The family were orthodox Hindus of the baniya (trading) class although his father was not a merchant. Gandhi was a poor physical specimen, introverted, timid and awkward.

When he was 19 he left his wife, Kasturba, and small child to go to England to study law, encouraged by his brother. On the journey an important fact of his character revealed itself: there was no vegetarian food on board so he lived for weeks on the bits of fruit and candies he had with him, not out of any personal or religious conviction, but because he had vowed to his mother that he would uphold the family's non-meat tradition. Such a vow could not be broken.

He returned to India in 1891 to discover his mother had died. He made little headway as a lawyer, still being crippled by shyness. But England had whetted his curiosity about people and the wider world and in 1893 he accepted a request from an Indian businessman in South Africa to go there to help with a legal case. He planned to stay one year and stayed for more than 20, achieving some international fame as a campaigner against racial discrimination.

His long life of civil disobedience began with resistance in 1906 to a Transvaal Indian Registration Ordinance requiring all Indians to carry a finger-printed registration form.

Passive resistance seemed too feeble and negative a term so he used *satyagraha* — soul force or truth force — as the basis of his philosophy. At about the same time he read Thoreau's definitive essay on civil disobedience which together, with Tolstoy and the Bhagavad Gita, the great Hindu scripture, remained profound influences throughout his life.

This approach repeatedly confounded his opponents. Smuts later referred to him as a "prince among men" and wrote: "Gandhi never forgot the human background, never lost his temper or succumbed to hate. Men like him redeem us from a sense of commonplace and futility."

Gandhi returned to India at the beginning of 1915 and immediately started advising individuals on how to resist the oppressor whether it be landlord, employer or state. Rejecting the oppressor at all levels non-violently was the foundation of the claim for *swaraj* — self-rule or home rule for the whole country, the aim of the Indian National Congress.

But by 1920 three key events had turned Gandhi irrevocably against the British Government in India: atrocities in the Punjab, the treaty imposed by the victorious allies on Turkey and the Rowlett Act — a measure rushed through the Indian central legislature giving British officials extraordinary powers to deal with dissent. From this point his aim was the peaceful removal of British rule as quickly as possible. It took another quarter of a century.

Relations with the British deteriorated again when war broke out in Europe in September 1939 and the Viceroy, Lord Linlithgow, declared India at war with Germany without consulting any Indian representatives. Gandhi remained a pacifist throughout, repeating in 1940: "Only non-violence can save India and the world from self-extinction." A campaign of civil disobedience against the government's war policies began and by May 1941 more than 2,500 people had been arrested. In 1942 Britain strengthened its war cabinet by including Sir Stafford Cripps who persuaded the great Empire loyalist, Churchill, to let him have another go at breaking the Indian deadlock. His proposals recognised the right of India to full self-determination after war but they

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Pre World War II Advertisement

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Mahatma Gandhi: fearless, extraordinary leader.

Continued from page 78

were too little, too late and they failed.

On August 7 Congrese endorsed the "Quit India" campaign under which Gandhi was to lead a major campaign of civil disobedience to force the British out. He and the other leaders were arrested next day. Little could etop Gandhi's influence and his use of the fast as a weapon became increasingly effective.

Gandhi's wife died in February 1944 after 62 years of marriage. This was a serious blow to a man who rarely displayed much emotion about his private life and he became debilitated and ill with malaria, leading to his release in May. Kasturba had been an unwavering and long-suffering support to him. He recognised her importance one day by commenting: "We have coma to a reasonable understanding that I should have all the honours and she should have all the drudgery."

By the summer of 1945 all the Congress leaders had been released and it was clear that Britain could not remain many more years as colonial ruler in the sub-continent. Lord Wavell organised Gandhi-Jinnah talks bnt Gandhi, believing Hindus and Muslims could and should live together harmoniously, repeatedly rejected Jinnah's two-nation ideas.

During 1946 and early 1947 Gandhi, the undisputed Mahatma leading the independence surge, went walking through East Bengal villages trying to restore calm and goodwill after serious communal violence, an increasing feature of India which caused him great anguish. A violent independent India would be the worst of all possible worlds.

In February 1947 Attlee made his famous announcement to the British House of Commons that India would be independent within 13 months. There were major food shortages in India but Gandhi insisted that India would have to stand on her own feet if freedom was at hand; he refused to co-operate with Mountbatten, the last Viceroy, who wanted to plead for aid through the Western press. It would be better for millions to die than for India to go cap in hand to anyone, he said.

Eventually Britain agreed with both Mountbatten and Gandhi that there was no point in delaying independence which was duly instituted on August 15. Gandhi took no part in the celebration but fasted and prayed all day, saddened that communal violence continued throughont the country. He managed through his fasts and towering influence to bring peace but each time it was short-lived and uneasy. The little man living an increasingly ascetic life grew more inwardly depressed, searching – particularly on Mondays, his self-imposed day of silence – for solutions which elude India to this day.

Before 1948 was a month old a Hindu journalist from Poona, Nathuram Godse, shot Gandhi dead at point-blank range.

One of the century's grest non-violent campaigners had died the most violent death, leaving behind a troubled but magnificent country. One of the best assessments of Gandhi's strength comes from Morarji Desai, former deputy prime minister of India, who wrote in his autobiography: "Whenever we think of Gandhiji a picture of his majestic grandeur comes to us. There was nothing spectacular about his childhood and youth. He was not considered a very clever student in school, nor did he shine particularly during his study of law. He, however, adopted the principle of truth from childhood and devotion to hie parents was deeply rooted in his mind. As a result of these two attachments he became fearless, and developed from an ordinary person into an extraordinary one."

INDIA TODAY

Path ahead choked

For consistent development, reforms are needed, says John Elliott

INDIA is a nation which arouses great passions in people from other parts of the world. Its contrasts of poverty and opulent wealth, its chaotic inefficiency, and its political and administrative blockages and corruption, all combine to astound, and often to infuriate, the visitor.

Add to that the national pride of a relatively newly independent oation, plus the personal status-conscious pride eaused by a pervasive caste system, and the country can seem intolerable. Add further the tensions and often bloody social strains of 27 states, 15 languages, five main religions, and dozens of castes and sub castes, all aggravated by inadequate and uneven economic development, and it seems as if this is a fragile nation which must one day break apart.

Yet India does hold together, and there is no real sign of it breaking up, despite the appalling bloodshed in the Punjab and tensions in other areas like Bihar with caste-based strife and Uttar Pradesh and Gujarat with both caste and Hindu-Muslim problems.

The country's administration does work, just. Its politicians who preside over central and state governments more or less do their job. People are fed, albeit with 40 per cent of the population below the poverty line. And the economy does normally grow at a moderately reasonable rate.

"Remember, India is the only fully free-running democracy in South Asia", Mr L.K Jha, one of the country's most distinguished public servants said shortly before he died last month. There are economic, caste and other tensions in certain areas like the state of Bihar for example, but there is no feeling of common economic deprivation right across India. That is why there is not a risk of a popular uprising.

But India is nevertheless a country which disappoints its admirers as well as appalling its critics. "Poised for rapid growth" and "on the springboard for take-off" are cliches often used by Ministers, industrialists, and journalists to obscure past failures and to herald a better future. As the phrases suggest, India always seems to be at the turning point to great success, but somehow never quite gets there.

Now, as it celebrates its 40th anniversary of independence from British rule (which means that it has been a sovereign state for less than half the FT's life), the country has just stepped back from one of those springboards for rapid change.

Old and powerful vested interests hava harnessed the inertie of the world's largest democracy to thwart the almost revolutionary fervour of Mr Rajiv Gandhi, the country's yonng, inexperienced, and sadly elow-to-learn Prime Minister.

After three years in office he now probably faces nearly two years as a lame duck Prime Minister before the next general election either injects him with new political authority or subscribes to his decline.

Economic reforms started by his mother, the late Mrs Indira Gandhi, which he energetically expanded in 1985, have brought a new zest to industrial development and technological change. These are considerable achievements but their full potential will never be realised, and the country will never break out of its history of slow and halting development, uolesa more fundamental changes are made to the way India is run by the politicians and civil servants who block change.

> 'Despite its problems, India is the only free-running democracy in Asia.'

There are two basic problems:

□ First, most politicians are only interested in building their own prestige and power with little interest in the development of policies and even less in selfless public service. Politicians, along with most officials, are assumed to be corrupt until they are shown to be clean, and their leadership spreads corruption down to the level of administrators in the smallest village.

So India needs a national leader who can introduce a new political ethic, bringing in a different type of politician with an interest in policy and development. Mr Gandhi has tried to do this but after a series of political setbacks in the past year, he no longer has the personal anthority to push such long term reforms before the next election.

□ Second, and most importantly, the administrative system has not been reformed since it was set up in British days to regulate and control a large complex colony and to collect dues. District officials are still called collectors. The massive Steel Authority of India's exports are ultimately managed not by a marketing director but by an Iron and Steel Controller sitting in Calcutta.

Onto this 19th century regulatory framework, which was tightened during the 1939-45 wartime years to combat shortages, Mr Jawaharlal Nehru, the first prime minister, imposed Socialist-inspired nationalised planning and centralised controls.

Since Mr Nehru's time, the system has not been modernised to cater for positive development, expansion and efficiency. Almost all civil servants believe it is their job to control and restrict events by refusing or granting permissions. Laws are drafted in negative, not permissive terms, and allow little scope for even the best civil servants to inspire and encourage change.

The personal authoritarianism and subservience bred by the country's hierarchical caste system encourages the exercise of such authority. And the fear of losing jobs or status means that few civil servants are prepared to take decisions or initiatives.

So the government mechine needs to be reformed to make it development-oriented, instead of primarily regulatory. An unpopular, and somewhat improbable, alternative would be to return to the sort of State of Emergency run by Mrs Gandhi from 1975-77, which is still admired by some businessmen and others because of the way it acted as a catalyst for change and development.

On a broader political front, both Mr Gandhi and his mother have been criticised for failing to surround themselves with publicly recognised, capable, senior political figures, instead of the people of little stature. Such a collective leadership would, political experts in India believe, broaden the base of the government, increasing its authority.

Some politicians and government advisers also advocate giving the country's president executive powers, broadly on the French model, instead of the present system where the president is only the titular head with little if any more power than the British sovereign. The theory is that this would streamline the executive, while also creating an avenue to power for opposition parties who have not been able, since independence, to oust the Nehru-Gandhi ruling Congrees Party for more than a brief spell in 1977-79.

Such ideas stem from e need to broaden the country's politicsl base and so increase the authority of the administration. More democracy is also needed, both within the Congress which has not had organisational elections for 17 years, and in individual states which, with very few exceptions, hsve not devolved power down to villages.

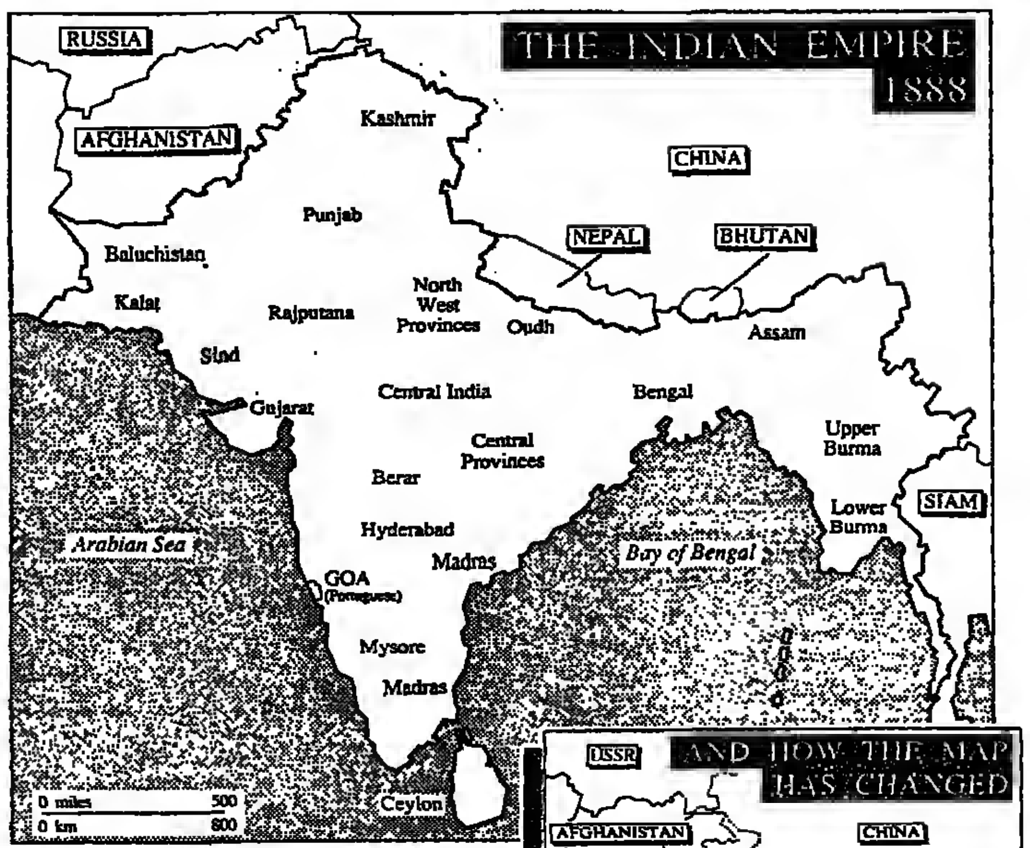
It seems unlikely that the urgent social and economic reforms needed in the country can be pushed effectively until such basic changes are made.

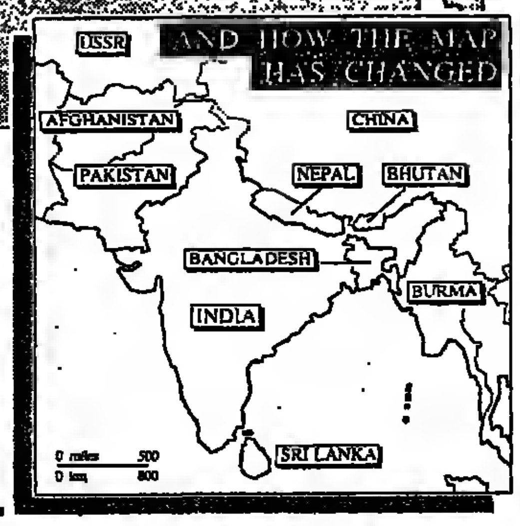
The most pressing of the reforms is to curb population growth. The population is now approaching 800m and is increasing at about 2.2 per cent e year, which is roughly equivalent to adding the 15m population of Australia every year. It will reach about 1bn by the end of the century and might overtake Chine, which has already just topped 1bn, by the year 2020.

If these ehanges come about, eoupled with action to spread education, then some of Indis's other problems might be more easily tackled

Political leaders and administrators might be able to overcome the spectre of Nehru's socialism whioh is raised by opponents of change whenever economic reforms are proposed. A more positive approach to economic growth and efficiency might then emerge. Politicians and other local leaders might be less inclined to exploit communal and other divisions for personal and political gain. The debilitating caste system might also hsve less hold over a better educated population.

The history of Indie's independenee illustrates the country's strengths as well as its weaknesses. Much has been achieved so far in the 1980s. But without the basic changes, Indie'e growth and development will be slow and social stability could become more precarious because uneven economic development will further exscerbate dangerous divisions among the rich and poor.

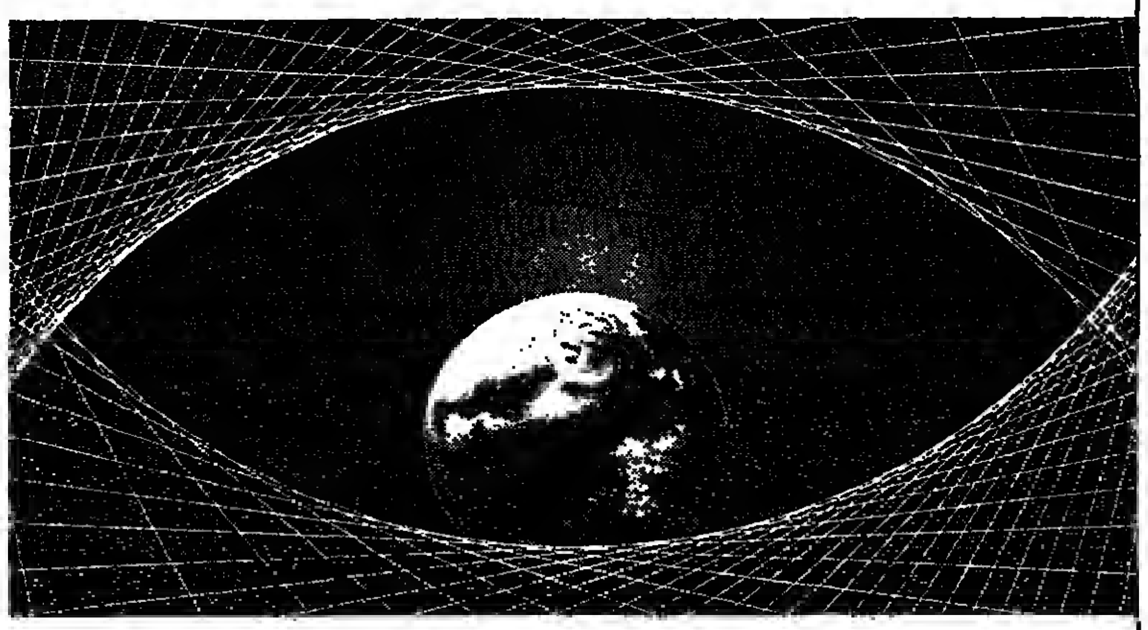




In 1888, when Queen Victoria was Empress of India, there were 309m people in the subcontinent in which 500 Indian feudal princes exercised territorial independence.

Today, there are close to 800m people in India elone, tha world's lergest democracy. By tha year 2000, the population is likely to be close to 1bn and the figure could surpass China by the 21st century.

Independence came to Indie and Pakistan a little over 40 yeers ago in August, 1947, to Burma in Jenuary, 1948 and Ceylon in February, 1948.



CHINA: THE LONG MARCH

Mao on the Long March: a belief in the ability of man to perform miracles

An inspiring leader's disastrous legacy

Mistakes were made in Mao's closing years, says **Colina MacDougall**

IF MAO ZEDONG had been hit by a bullet on the 1934-35 Long March, would one of the other Communist guerrilla leaders have picked up the torch and led the revolution to victory? In retrospect, only Mao seems to have been blessed (or cursed, as it later turned out) with the Utopian vision which could weld an unlikely mixture of bandits, peasants, workers and intellectuals into a victorious army.

Mao's belief in man's ability to perform miracles, given the right leadership and essential morality of the cause (in this case, the need to alleviate poverty and restore stable government) made him an inspiring revolutionary leader. But this same confidence was to prove catastrophic after the Communists took over when applied to the normal processes of running a country.

The Long March brought Mao to power. In a dramatic confrontation at Zunyi, in Guizhou province, which the straggling armies crossed on their way north-westwards to the cave redoubt of Yanan, he finally defeated his party opponents. Their earlier policies had caused the near-total destruction of the Communists in a series of unwise and ill-prepared urban uprisings.

The Znnyi meeting was s turning point in more wsys than one. It brought the urbane, intelligent Zhou Enlai to Mao's side, where he stayed for the rest of his life, giving Mao a strength and credibility he did not always deserve.

It also led to the establishment of the relatively secure base at Yanan, which not only helped to build np the Communist armies but gave refuge to radicals from all over China who came to join the revolution.

One of these was a pretty young film actress who fascinated Mao and hroke up his marriage. This completely unpolitical but bitterly controversial event came back to haunt China in the 1966-76 Cultural Revolution when Jiang Qing, as she later called herself, used the movement to settle old scores. As Mao grew old in the 1970s, she increasingly dominated the leadership with her narrow views and obsessive leftism.

Mao's visionary thinking and total lack of practical experience plunged post-1949 China into its first and worst economic catastrophe, the 1958 Great Leap Forward. This was his all-out movement to boost farming and set up steel and fertiliser plants in the countryside.

At the time, he had his old guerrilla comrades behind him, since most knew as little as he did about actually running a country. But warning signs of his spocalyptic thinking and fear of criticism – near-paranoia, as it became – had already emerged.

The anti-landlord campaigns and collectivisation in the countryside which he masterminded in the early 1950s were only to be expected. But the speed with which much tighter controls were applied in the rural areas in the mid-1950s, plus the bitter "anti-rightist campaign" and crackdown after the 1957 Hundred Flowers free speech movement, highlighted his impatience snd intolerance of opposition.

"Great Leapism" has tended to be a characteristic of Chinese revolutionaries. Dr Sun Yst Sen, who brought the downfall of the imperial dynasty in 1911, likewise imagined China could make the jump into modernity in just a few years. But Mao'e 1958 Great Leap in production was made the more disastrous by choosing the same moment to reorganise the fundamentals of the age-old rural and family structure.

The 1958 "rural communes" were a social and economic unit in which the peasants were supposed to work snd live entirely communally. Mso called for their establishment just as he was launching the Leap. The two movements together proved an intolerable burden for the peasants.

Much to the annoyance of the Russians, Mso then claimed that Communism bad all but arrived, an assertion which, on top of all the other irritants in the Sino-Soviet relationship, led to a breakdown which is only now being healed. He convinced both foreigners and Chinese that the movement was a huge success, using statistics which soon turned out to be completely bogus.

Reality dawned in 1959. Whatever the figures on paper, food was obviously short. The backyard industry was a mess, having served only to distract the farmers from their prime task of bringing in what had been an excellent 1958 harvest. Distribution systems failed to function, swamped in the new commune arrangements.

Worse was to come. The 1959 harvest was poor, and 1960's catastrophic. In 1960 and 1961 around 20m people died directly or indirectly of starvation. Mao faced bitter criticism in 1959 from his colleagues and was virtually replaced as ruler by Liu Shaoqi (later to die at the hands of Mao's Red Guards).

Liu's policies, which called for such innovations as free markets and material incentives, restored economic equilibrium, and Premier Zhou Enlai even embarked on buying technology from the West.

But Mao's Utopian vision saw this as a betrayal of ideals. Emotionally, he seems to have harked back to the days of the Long March and the Yanan caves when life was unsullied by material interests. He planned an appeal to the young to remake society, which finally took shape in the Cultural Revolution, the movement he launched to restore the idealism of the 1930s.

This, at least, is the kinder view of the origins of the "10 bad years" (1966-76). It is not much subscribed to in China today. While the verdict on Mao is that he was s great revolutionary, it is severely qualified by adding that he made dreadful mistakes towards the end of his life.

The usually unspoken interpretation is that the Cultural Revolution was designed by Mao to overthrow his political opponents. Tens of thousands, if not more, of China's officials, teachers and other intellectuals were beaten up, disgraced or killed. Mao picked off all the senior party officials who had opposed him, though a few, including today's supreme leader Deng Xiaoping, survived to return after his death.

Today, Mao-style idealism is completely out of fashion. This is hardly surprising when, besides destroying the party, the Cultural Revolution ruined China's educated classes, froze the economy in its mid-60s state and lost s generation of university graduates. The indirect benefits are that leaders who suffered, like Deng, have seemingly learned how it feels to be the victim of a wholly arbitrary system.

Ironically, too, Mao's plan to give the young a taste of revolution has been partially successful. Red Guards travelled the length and breadth of China, saw violence on an unparallelled scale and had to think for themselves about the morality of it all. Today the ones who fought their wsy back into decent jobs stand out as mature and self-confident, a byproduct of, though hardly a justification for, s catastrophic event.

There is hardly a soul in China who does not sigh with relief that the Mao years are over. With his belief in the overwhelming might of man's will, Mao was s disastrous ruler. The Long March spawned a winner in the civil war which changed the face of 20th century China, bnt one whose legacy to the nation of peacetime rule has been gladly forsaken.

PROFILE: DENG XIAOPING

A genius for politics

Colina MacDougall on the architect of China's drive for modernisation

HE IS 4ft 11in, nearly 84 and slightly deaf. He smokes like a chimney, spits with accuracy and has a weakness for croissants, acquired during student days in France. The puckish face is growing rounder, perhaps under the influence of the French bakeries which have recently opened up in Peking.

He has a gift for aphorism, like his mentor Mao Zedong, and an impulsive nature. "What does it matter if the cat is black or white as long as it catches mice?" he rashly said in the hearing of Mao's henchpeople, the Gang of Four. This memorable phrase, downgrading ideology, got him into severe trouble but has since made his name as a pragmatist.

He is quite a showman when the *occasion demands*, as it did on his 1978 US trip when he donned a 10-gallon hat and drove beaming around s Texas rodeo ring. If he is vague about geography (he told Queen Elizabeth II he could not see England from the Eiffel Tower, as if he wera surprised), he has a genius for politics.

He is Deng Xiaoping, China's Grand Old Man, who seized the helm in the years after Mao died and brought the country out of chaos and into a semblance of order and growth. A party member for over 60 years, in his so-called retirement he still exerts supreme power.

Deng has fallen from grace with a classic thump three times in his life. The worst was probably in Mao's destructive Cultural Revolution when he was labelled s "capitalist roader" and exiled to a village in Jiangxi province. One of his daughters wrote about it in 1984, calling him at that time "introspective in character snd a man of few words."

But his least known trauma was in 1933. Nearly 30, he had already spent five years in France where he had joined the Chinese communist party. Back in China, already a supporter of Mao's guerrilla strategy rather than the official Lenin-style urban uprising policy, he was sent to work in Jiangxi.

At that time, party leaders, constantly on the run from Chiang Kaishek's troops, were for ever squabbling about tactics. Mao's ideas were seen as subversive, so Deng as a Mao supporter was sacked from his post and "struggled against." The chief struggler, Li Weihan, not only called for "an attack without mercy and a struggle with brutality," bnt also snatched Deng's wife, Jin Weiying.

Thus Deng set off on the Long March the following year divorced and in disgrace. It may have been some consolation that Li Weihan's new marriage collspsed after the Red Army arrived at its goal, Yenan. Ironically, before it did, Jin Weiying produced a son, Li Tieying, who is now on China's Politbureau.

But during the Long March, Mao became undisputed leader, so settling party squabbles for many years. After the proclamation of the People's Republic in 1949, Deng was swiftly promoted, becoming part of the magic leadership circle when he joined the Politbureau in 1955. His loyalty did not waver much even after the cstastropbic Great Leap Forward of 1958.

But in 1961 be did begin to repair the economy, along with the newly elected head of state, Liu Shaoqi. They both favoured tactics like privatising aspects of farming. This was seen by the increasingly paranoiac Mao as betrayal, and in the tumultuous Cultural Revolution years Deng was seized by Red Guards and put in isolation.

The injustice and arbitrary nature of the Cultural Revolution must have caused him furiously to think. It was a hideous experience for the whole family. One of his sons, Deng Pufang, was thrown out of a window and paralysed from the waist down.

After the first year of detention, Deng (by now 65), his wife (he remarried after the Jin Weiying affair) and stepmother were rusticated to an empty schoolhouse in Jiangxi. Deng cleaned the house, chopped the firewood and grew cabbages. One daughter and her younger brother joined them.

In 1971, his paralysed son, who had suffered almost total neglect in Peking, was allowed to come too. Deng himself kept the young man clean. Then, another improvement, he and his wife were given jobs in a tractor plant where he worked as a fitter, as he had done around 40 years before in the Renault factory in France.

Not many elder statesmen of the 1980s have had a comparable experience. It was compounded by his dismissal for the third time in 1976, blamed by the Gang of Four for the riot in Peking when students were mourning Premier Zhou Enlai. Deng must have known it would be touch and go as to whether he would ever get back to power.

In the last few years, Deng has said many times he would like to retire. Ha wants to spend more time with his grandchildren, to whom he is devoted. Of his three daughters, one is an accomplished artist, another a foreign service official. Besides Deng Pufang, who runs welfare services for the handicapped, another son, Deng Zhifang, is a research physicist in the US.

But the reforms which Deng Xiaoping initiated in 1979 need at least his distant presence to keep the show on the road. After five years of success, since 1985 they have hit problems which leave them vulnerable to his opponents. The chances are that Deng will die in harness, still trying to put China irreversibly on the Long March to modernisation.

Deng: a showman when occasion demanded

CHINA TODAY

The sun sets over cyclists returning home from work across Tienanmen square, one of Peking's focal points

Caution to remain the watchword

The aim is to achieve developed country status by the year 2050, reports **Colina MacDougall**

AN EXPECTANT hush hangs over the million-strong crowds in Peking's spectacular Tienanmen square. Balloons and streamers dance in the light breeze of the autumn day. The massed bands break into the national anthem as the party leaders take their places in front of the vermilion gates.

It is October 1 1999. Peace reigns around China's borders, kept that way by the leaders' desire to concentrate on building the nation. Hong Kong has been back in the fold for over two years (and is looking the worse for it) while Macao has just rejoined the motherland. It is fifty years to the day since Chairman Mao proclaimed the People's Republic.

According to the ideology accepted by the 1987 party congress, China will remain in the "preliminary" stage of socialism till around the year 2050. So in 1999, it will still be a long way from the end of this period. This doctrine will allow the decidedly non-Marxist range of policies evolved in the 1980s – such as individual farming and private business – to flourish.

But it remains to be seen whether such peaceful economic development will actually materialise. China's history for the last 150 years suggests a built-in propensity towards extreme beliefs, revolution and civil war. Many Chinese must hope that, by the end of this decade, the country will be set firmly on the path of modernisation. But will it?

The country has several huge hurdles to surmount if it is to achieve this. One is the instability which may surround the death of Deng Xiaoping, likely to occur over the next decade. This could break up the careful compromises established at the top in 1987 between China's reformers and so-called conservatives.

Another is the discontent of many of the tens of millions of industrial workers who resent the reforms because they have, as the Chinese say, "broken the iron rice bowl" – cut into the security provided by the old socialist system. A third is the growing restiveness of the intellectuals, which, if manifested in more student protests, could seriously undermine the present relative calm.

Yet in 1976, when founding *father, Mao Zedong died, China* was impoverished, stagnant and, as his successor Hua Guofeng pointed out, on the brink of civil war. By 1987, though still beset with critical problems, it had consolidated a younger leadership, stimulated the economy, raised the standard of living and cautiously begun to permit a freer cultural life.

These years of success argue that China does have a chance of continuing the reforms through the 1990s and beyond. Even China's elderly conservatives seemingly want the country to become richer and more powerful. Younger leaders, even where apparently hardline, seem bent on similar goals.

These younger leaders seem likely to be the ones to lead China to the end of this century and perhaps into the next. Several of them, such as acting premier and party second in command Li Peng, who is the adopted son of Zhou Enlai, have backgrounds which will make them hard to displace.

But whoever actually constitutes the leadership in the 1990s and beyond, the chances are that it will be extremely cautious. Communist parties being what they are, no-one will want to risk the loss of too much central control. That will continually be balanced against the beneficial effects of economic freedoms.

But it also seems unlikely that China will change course back to the traditional version of Marxist Leninism. Chinese leaders seem convinced that the only way for the country to *catch up with the outside world* is through the present reform and the "open door" trade policy. There is a nucleus of support for traditionalism among those whose standard of living has not risen much through the new policies, but unless differentials grow hugely, it is unlikely to prove a real threat.

Real political reform seems unlikely to be on the agenda, even into the 21st century. The present leadership will probably secure the succession of like-minded heirs. The battles which raged in 1986-87 over how much freedom should be allowed ended effectively in 1987 with a conservative victory for the minimum.

The political reform mooted at the 1987 party congress meant only that enterprise managers could make technical decisions without reference to the party. Minor concessions were made in the 1980s, and probably will continue to the 1990s, over elections and cultural questions. But nothing which rocks the supremacy of the party will be permitted, and in consequence China is not likely to develop much original new culture.

China should at least keep up the present momentum of economic development in the 1990s. Living standards will be supported by an agriculture which should overcome the problems of the 1980s (fragmentation of the land into tiny holdings, too little investment by peasant households) by concentrating the fields into the hands of a small group of skilled farmers, as is the intention. *Annual output will rise.*

The rest of the rural population will move into local industry. Initially unsophisticated but impressively energetic, this will gradually improve its technology and quality of output.

But urban industry will be less successful because the leadership will never be tough enough to grasp the nettle of price reform. Many of China's prices, especially coal and steel, were fixed in the 1950s and by the 1980s bore no relation to real costs. Their arbitrary nature made it impossible to judge which enterprises truly made profits or losses even when given managerial independence.

Other industrial reforms will probably stagger ahead. The gradual liberalising of factory management, a slow improvement in technology and the lure of real profits and higher wages will eventually mean higher quality output.

The unpredictability of China's future up to the end of the 1990s makes crystal-gazing for the next century even riskier. The current leadership's own targets include reaching the status of a developed country by around the year 2050, at which point the "preliminary stage" of socialism will be over (and for Hong Kong and Macao too).

But it seems inconceivable that the economic freedoms now permitted could be retracted in the middle of the next century if they work and are still needed. The country will almost certainly have a colossal population problem *(the UN Fund for Population* Activities thinks the total could touch 2bn by 2030), which will be a huge drain on resources.

The cities of the east coast may be at or beyond today's living standards in Taiwan or South Korea, but there are likely to be large inland regions still quite poor. China may have become a powerful country in world terms with some high technology, much buying power and an impressive educated elite, but its wealth will not be widely spread.

Of the two countries at all comparable with China, the US and the Soviet Union, China is much more likely to grow to resemble the Soviet Union. If it becomes strong, like the Soviet Union, it may not be a comfortable superpower to live with. But its considerable problems make it unlikely that this will happen before the year 2050.

THE MIDDLE EAST TODAY

Post-war order holds amidst the chaos

Pan-Arabism has lost some of its appeal, **Andrew Gowers** believes

IN NO region of the world has the map been so comprehensively redrawn over the last 100 years as in the Middle East. Of all the contemporary states of the Levant, only Egypt, Iran and Turkey can be said to have enjoyed any form of independent existence before World War One. For the most part, recent regional history has been a matter either of battling for turf (in the case of Israel, for the right to exist) or of coming to terms with borders imposed artificially by outside powers. The question for the next 100 years is whether the fragile order of 1988 has any chance of surviving in a recognisable *form.*

A cursory look at the bloodshed since the establishment of the state of Israel almost exactly 40 years ago – four Arab-Israeli wars, countless Arab coups, a 12-year-old civil war in Lebanon, a tumultuous revolution in Iran and seemingly interminable conflict with Iraq – is scarcely encouraging.

Yet on one level, the regional order is today a good deal more stable than it often seems. Many of the key Middle Eastern leaders have been in power for the best part of two decades – in the case of Jordan's King Hussein, much more. Even where rulers have been violently deposed in recent years, like Sadat in Egypt, the system has by and large survived and adapted. In the face of a tide of *militant* Arab nationalism, the repercussions of a crushing military defeat by Israel in 1967, the violent dislocations brought by new wealth in the 1970s, and so far, at least, the ripples of fundamentalist Islam from the Iranian revolution, the old order has proved remarkably durable. Only in the sad case of Lebanon has anarchy become a way of life.

Just as importantly, the goal of a unified Arab nation which used to obsess Arab leaders, bedevil their dealings with one another and stultify their approach to the main problems confronting them has become recognised for the chimera it always was. Rhetorical declarations of the need for Arab unity, of course, still abound. President Hafez al-Assad of Syria continues, in theory at least, to nurture the grand ideal of a Greater Syria. But a very careful distinction is made between such dreams and contemporary reality.

In short, the system of nation states which was grafted on to the region after 1945 has quietly taken hold. Local nationalisms and local concerns – coupled with a more vocal devotion to Islam – have to some extent superseded the "pan-Arabism" to which the masses rallied in the days of Nasser, and even eclipsed the overwhelming preoccupation with the Palestinian cause which grew up in the wake of the 1967 defeat.

Evidence for such sweeping observations is, of course, difficult to pin down in the absence of free expression through much of the Arab world. But in his illuminating book "The Arab Predicament," Prof Fouad Ajami, a Lebanese-born American academic, tells of a survey conducted some years ago at Kuwait University, in which students from almost all Arab countries were asked their views on pan-Arabism, family, state and religion. The responses revealed "a remarkable assertion of Islamic sentiment and an assertion of patriotism associated with particular Arab states."

Prof Ajami concludes: "The boundaries of Arab states have been around now for nearly six decades. It is not their existence that is novel but the power of the state...to keep pan-Arab claims at bay and to *claim* the loyalty *of those* within. The boundaries are no longer as 'illusory and permeable' as they were once thought to be. The states that lie within them are less shy about asserting their rights, more normal in the claims they make. The Arabs who once seemed whole, both to themselves and to others, suddenly look as diverse as they were all along."

Yet, if some of the uncertainties of the Middle Eastern equation have been eroded by time, it is clear that major underlying sources of instability remain, and may in an insidious way be becoming more acute.

The first and most obvious is Israel. The second is the growing challenge posed to the established order by militant, populist Islam. The third, and perhaps the most disquieting in the long term, is the trend of rapid population growth throughout the Middle East. All three issues have the potential to interact in a way which over time could easily upset the fragile post-war order.

The Arab-Israel conflict might – at least on an inter-state level – seem less threatening today than it has been at times in the past. Peace may be an extremely distant prospect, but then a full-blown Arab-Israeli war scarcely seems imminent either. The 1978 peace treaty between Israel and Egypt is battered but intact. Syria, while pursuing its goal of "strategic parity" with Israel, has been most careful in recent years to avoid a confrontation which could escalate. Until the recent protracted wave of unrest in the West Bank and Gaza Strip, even the Arab frustration arising from the more than 20-year-old Israeli occupation of these territories scarcely seemed to pose a threat to the status quo.

There are indisputable grounds for pointing to a new mood of realism over the conflict among Arab states. Clearly, an Arab world more comfortable with the nation-state system is in principle likely to be more capable of accepting the state of Israel, and the Arabs have been proclaiming their readiness to negotiate a settlement with Israel since the early 1980s. It has also become fashionable in the West to point to Arab obsessions with the Iran-Iraq war as an apparently more pressing issue than Palestine.

Prof Yehoshafat Harkabi, an eminent Israeli Arabist who used to work in military intelligence, believes that the Arab states have succeeded in separating the "grand design" of eliminating Israel from their actual policy – just as the Soviet Union maintains the theoretical grand design of encouraging the collapse of the West without pursuing it as a matter of policy.

But neither these auguries nor the incessant diplomatic to-ing and fro-ing aimed at setting up an international conference on the conflict can disguise the fact that the so-called "peace process" remains in a near-total impasse, thanks in large part to a widening polar-

Continued on page 82

Prime Minister Menachem Begin of Israel and Egypt's President Anwar Sadat: their 1978 peace treaty is battered but intact

Continued from page 81

isation within Israeli society on the issue. The status quo may seem sustainable in the short term, but within a couple of decades at the outside it will be looking dangerously volatile.

By the year 2010, on current trends, Arabs will outnumber Jews west of the river Jordan. At that point, the choice for Israel will be even starker than it is today: if it does nothing about the status of the occupied territories or annexes them without giving their inhabitants political rights, it risks being compared invidiously with another minority regime several thousand miles to the south; in the unlikely event that it sought to share power with the Palestinians, it would stand to lose its character as a Jewish state.

Even if the old "territory-for-peace" formula is eventually resurrected as a route to a possible settlement, it is very likely that the maximum acceptable to the Israelis will fall well short of the minimum acceptable to the Arabs. The only other option seems unthinkable, but is articulated on the extreme right of Israeli politics with frightening frequency: wholesale expulsion of the remaining Palestinian inhabitants from the West Bank and Gaza to Jordan.

Failure to address the roots of this conflict remains the single biggest potentially destabilising factor in the contemporary Middle East for several reasons. In the first place, although Arab leaders have in practice learned to live with the status quo, the same can not necessarily be said of their subjects.

The apparent political quietism which prevails at present among most ordinary Arabs is above all the product of sullen resignation, of a feeling that the ideologies and political systems under which their countries have been ruled since they gained independence have somehow let them down. Israel's continued occupation of what was until 1967 Arab land and its often ruthless subjection of the Palestinian inhabitants remains a potent symbol for the general Arab sense of political and cultural humiliation.

Demographic trends only reinforce the point. More than half the population of most Arab countries is below the age of 20, and the young have high political and economic aspirations which their rulers are going to find extremely difficult to fulfil, especially in the most populous and poorest of the region's states, Egypt.

This mood of disenchantment may help to fuel the growth of more extreme political tendencies, especially militant Islam. The rise of religious fundamentalism in such countries as Egypt predates the Iranian revolution, and springs from far more widespread political wells. It is in part a function of the absence of free expression or political participation in most parts of the Arab world, which means that any form of dissent tends to be channelled through the mosque; in part a search for roots, for indigenous culture in a region which feels swamped with imported goods, lifestyles and ideas. But it seems clear that as such views influence or come to dominate governments in the Arab world, they are going to bring with them a more assertive stance on issues like the Arab-Israel conflict – and towards the West, whose leading power is perceived as an unconditional supporter of Israel.

These subterranean movements could bubble to the surface in a number of ways. Iran has always made clear that it regards Basra and Baghdad as only the first stops on the road to the liberation of Jerusalem. And although the order of Arab leadership has not changed greatly in the last two decades, sooner or later the incumbents are bound to fade away. Many analysts believe, for example, that Syria, with its volatile sectarian mix, is ripe for a bout of major instability when President Assad dies. Given the close cultural affinities which knit the region together, it is easy to imagine some sort of political "domino effect" whereby the trouble spreads.

What is being described here is not merely a little local difficulty. It is the possibility of a serious upheaval in a region of vital strategic and economic concern, containing more than half the world's oil reserves. Perhaps it will take another oil crisis – and one may not be that far away despite the current glut – to concentrate Western minds properly

THE MIDDLE EAST: THE ORIGINS OF CRISIS

A constantly redrawn map

The Middle East has not been kind to its would-be protectors, **Edward Mortimer** notes

THE MIDDLE East is one of those areas of the world that has seen its political geography fundamentally transformed during the first century of the FT's existence. In fact, even the phrase "Middle East" was unknown in 1888. Of the states that make up the present-day map of the area only Iran and Oman then existed as internationally recognised independent states with approximately their present name and shape.

Aden was a British colony, run by the India Office, which was just beginning to extend its authority (or "protection") into the South Yemeni hinterland, as it had already done for Bahrain and would soon do for the "trucial states" of the Pirate Coast – now the United Arab Emirates. The interior of Arabia, not yet Saudi, was a realm of warring nomadic sheikhdoms. But all the rest of the Near East, as it was then known, was regarded as belonging to the Ottoman Empire, often dubbed "the Sick Man of Europe."

The degree of effective Ottoman control varied greatly from place to place. In Kuwait the Emir did not recognise it at all, though the British were reluctant to challenge it. Even in Egypt, which the British had occupied since 1882, they formally recognised Ottoman sovereignty. Sudan, previously governed by the Egyptians in the Ottoman Sultan's name, was in revolt under the state founded by the Mahdi and would not be brought under Anglo-Egyptian condominium until 10 years later. In Yemen and the other Arabian coastlands the Ottoman grip could be felt only intermittently and often indirectly.

But on the whole, thanks to improvements in communications and other technology, the empire was becoming more centralised and beginning to be administered more efficiently. It had also begun to resent the self-righteous interference of its British allies, and was just embarking on a flirtation with the newest and fastest-rising European power, Imperial Germany. 1888 was, in fact, the year of the concession for the first phase of the Berlin-to-Baghdad railway.

Turkey as a European and African power was clearly doomed by 1888. Ottoman territory in Europe had been shrinking steadily for two centuries. By 1914 the Balkan wars would reduce it to the short neck of eastern Thrace which is still Turkish today, while Italy seized Libya – the only remaining area of effective Ottoman power in Africa. But it was that fateful German alliance which led directly to the destruction of the Ottoman empire in Asia and the complete remodelling of the Middle Eastern map.

In 1914, lured by visions of a historic revenge on Russia and a heroic liberation of the Turkish-speaking peoples in the Caucasus and central Asia, the Ottoman rulers entered the First World War on what turned out to be the wrong side. Russia was indeed defeated but her allies – France and Britain, joined by Italy, Romania, Greece and the United States – survived to win the war and to dismember what was left of the Ottoman Empire.

Unfortunately, the war aims of the victorious allies were confused. They made contradictory and irreconcilable promises to each other and to other interested parties. As Arthur Balfour, British Foreign Secretary and signatory of the Declaration promising a national home in Palestine to the Jewish people, later admitted: "so far as Palestine is concerned, the Powers have made no statement of fact which is not admittedly wrong, and no declaration of policy which, at least in the letter, they have not always intended to violate."

In the upshot, the appetite of the two European powers who had troops in the area prevailed over the principle of self-determination enunciated by the President of the US, who could not persuade his countrymen to take the leading role in the postwar world which he believed was their duty. The Sykes-Picot Agreement between Britain and France was, broadly speaking, implemented. The promises of independence or "autonomous development" to the Arabs were not.

The newborn League of Nations – dominated in the US's absence by France and Britain – awarded Mandates to those two powers to administer the Arab territories in which they were interested. France got Syria, where it encountered Arab nationalist hostility from the predominantly Moslem inhabitants, and Lebanon, where its arrival was much more enthusiastically greeted by the Maronite Christians, who recognised the authority of the Pope and had invoked French protection as far back as the reign of Louis XIV. The French therefore enlarged the borders of Lebanon at the expense of Syria – a poisoned gift to their Christian proteges who now, as a result, find themselves outnumbered by resentful Moslems in their own country, with very tragic consequences.

The British got not only Iraq but also Palestine. They undertook, in effect, to implement the Balfour Declaration in Palestine proper, west of the Jordan, while in Transjordan they set up an Arab client state under the Emir Abdullah, one of the sons of Sharif Hussein of Mecca, their wartime ally. Another son, Faisal, was made King of Iraq (after the French had ejected him from Syria). But Sharif Hussein himself was driven out of Mecca in 1924 by a rival sultan from eastern Arabia, Abdul-Aziz "Ibn Saud", who by 1932 had carved out the new kingdom of Saudi Arabia – an Arab state much more genuinely independent at that time than either Egypt or Iraq, formally recognised as independent by Britain in 1922 and 1930 respectively.

The First World War had destroyed the Ottoman empire. The Second World War was to break the European powers which had taken its place. Hitler allowed Vichy France to keep the French territories in the Levant after 1940, but they were soon overrun by British and Free French forces. The Free French General Catroux proclaimed a nominal Syrian and Lebanese independence, which by 1946 became a reality, thanks largely to British and US pressure. Britain also defeated Italy in Libya, and sponsored the independence of that country in 1951. Meanwhile pro-Axis, anti-British risings in Iraq and Egypt had been firmly suppressed.

At first sight Britain, having thus ousted its European rivals, emerged from the Second World War even stronger in the Middle East than from the First. Both Anthony Eden and Ernest Bevin, the two great foreign secretaries of the period, believed that Britain could retain a dominant position in the region as the friend and protector of a string of newly independent Arab states. But Britain's downfall was soon to follow, in three painful stages.

The first blow came in Palestine, which the Arabs still regarded as an Arab country. Bevin was unwilling to jeopardise his Arab ambitions by yielding to US pressure to allow massive Jewish immigration. But in reality Britain – exhausted by the war, deeply in debt, and relying on American help to contain Soviet expansion in Europe – could no longer afford a major dispute with the US; and the horror of the holocaust gave an emotive power to the Jewish case within Britain (notably in Bevin's own Labour Party).

A shrewdly calculated campaign of Jewish terrorism against British power in Palestine itself, mainly organised by Menachem Begin but loudly cheered by supporters in the US, completed the job of breaking Britain's will to hold on. The humiliation of Britain's withdrawal from Palestine in 1948, leaving the Jews to form their own State of Israel and fight it out with the Arabs, was hardly redeemed in Arab eyes by the success of Britain's protege, the Emir Abdullah, in forming the Hashemite Kingdom of Jordan by annexing part of Palestine, including the Old City of Jerusalem. (Eighteen years later his grandson King Hussein was to lose it to Israel in the Six-Day War.)

1948 marked the beginning of the end of British power in the Middle East, the original *raison d'etre* of which had in any case been removed when Britain finally withdrew from India in 1947. The new *raison d'etre* was oil, and here Britain had already missed a trick in the 1930s by allowing American companies to pocket what would prove enormously valuable concessions in Saudi Arabia. With India gone, the true jewel in Britain's imperial crown was now the Anglo-Iranian Oil Company; and it was a devastating blow when Iran decided to nationalise this in 1951.

For two years Britain fought a desperate diplomatic and political battle to isolate the Iranian Government of Mohammed Mossadeq. But the Truman Administration in Washington gave only lukewarm support. Not until Eisenhower took office in 1953 did Britain succeed in convincing the US that the interests of the free world were at stake, and once the CIA had implemented British plans to overthrow Mossadeq, it was the US, not Britain, which secured the most influential and lucrative role in Iran.

The third and final blow came in 1956 when Eden, now Prime Minister, used military force, in collusion with France and Israel, to try to reverse Egypt's nationalisation of the Suez Canal. Once again America pulled the plug on Britain's anachronistic pretensions. The expeditionary force withdrew; the Canal remained nationalised; the Egyptian leader who had nationalised it, and whom Eden had hoped to overthrow, became a pan-Arab hero; and Eden himself resigned, his health broken.

After that, such events as the overthrow of the pro-British regime in Iraq (1958), the undignified withdrawal from Aden (1967) and the more orderly retreat from the Gulf (1971) were little more than a predictable, if not always predicted, aftermath. "Great Britain's Moment in the Middle East", as the late Elizabeth Monroe called it, had come to an end. America's moment had arrived.

But the Middle East is one part of the world in which American hegemony has not meant *Pax Americana*. On the contrary it has been marked by a proliferation of increasingly vicious local conflicts, few if any of which can plausibly be blamed on Soviet mischief-making. And although American strategy in the region has on the whole been much more successful, at least in the short to medium term, than many European and Arab critics have predicted, it has in the last 10 years suffered two serious reverses: the Islamic revolution in Iran in 1979, and the ill-starred attempt to restructure Lebanon in 1982-84.

For the time being America remains convinced that her national security is at stake in the Middle East. But at the same time the American public is increasingly conscious that US resources are overstretched by its global role, and it finds the politics of the Middle East increasingly unpleasant and unrewarding. It is perhaps not too fanciful to see a parallel with Britain after 1945, and to wonder whether America's determination to play a dominant role in the region would survive a third major debacle.

هكذا من الاصل

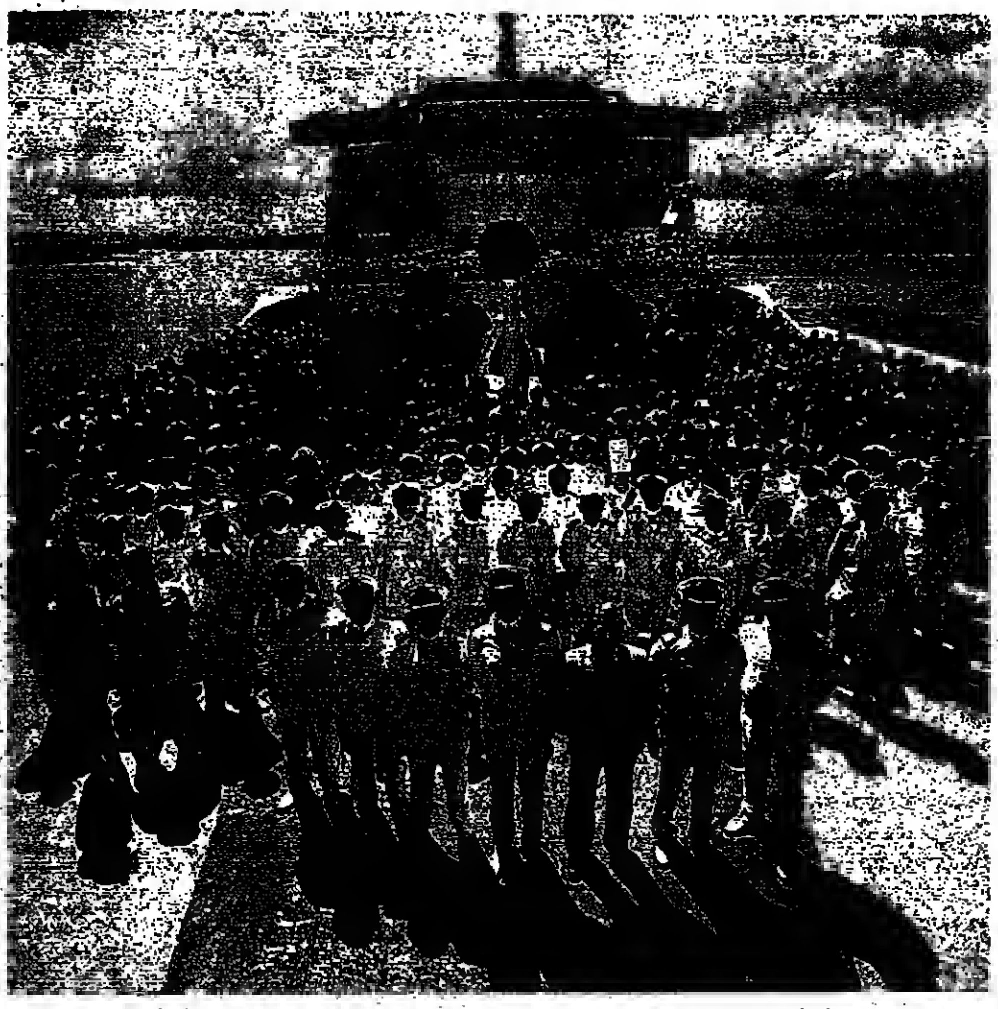
THE FIRST 100 YEARS

PICTURES FROM THE EXHIBITION

In the same year that the Financial Times was first published, George Eastman, the American inventor, made the prototype Kodak camera – making "photography easy for the amateur like myself".

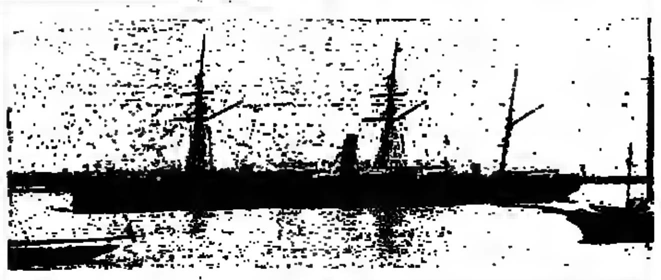
The Financial Times Centenary Photographic Exhibition, produced in association with Kodak, marks this and many of the other events of 1888, contrasting contemporary images with photographs taken by the FT's own photographers a century later.

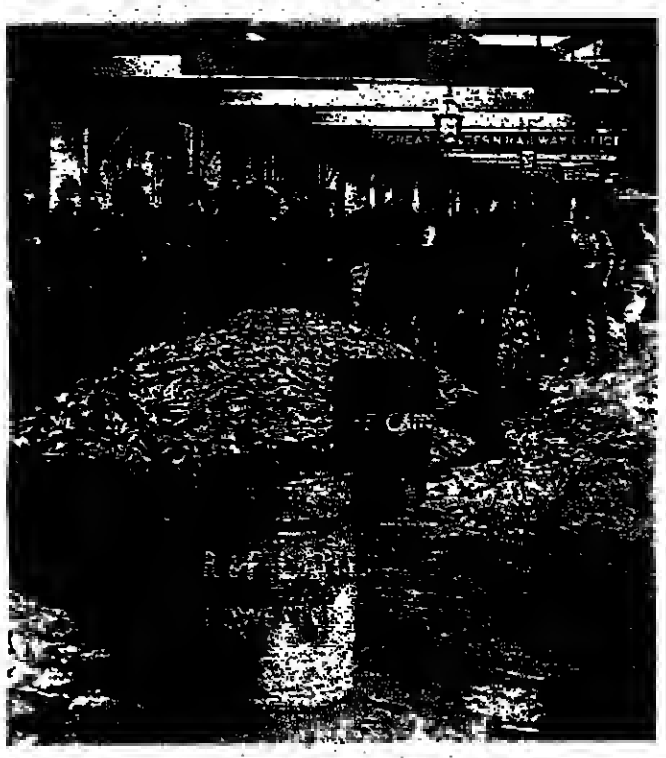
The exhibition will visit Gatwick Airport from February 1-29; Birmingham Airport April 18-May 31; Lloyds of London June 3-July 1; and Manchester Airport from October 3-November 11. **Glyn Genin**



◀ The Captain and crew of over 1,000 required to operate the Queen Elizabeth 2, 67,000 tons, last of the express liners, and care for her 1,700 passengers. (Glyn Genin)

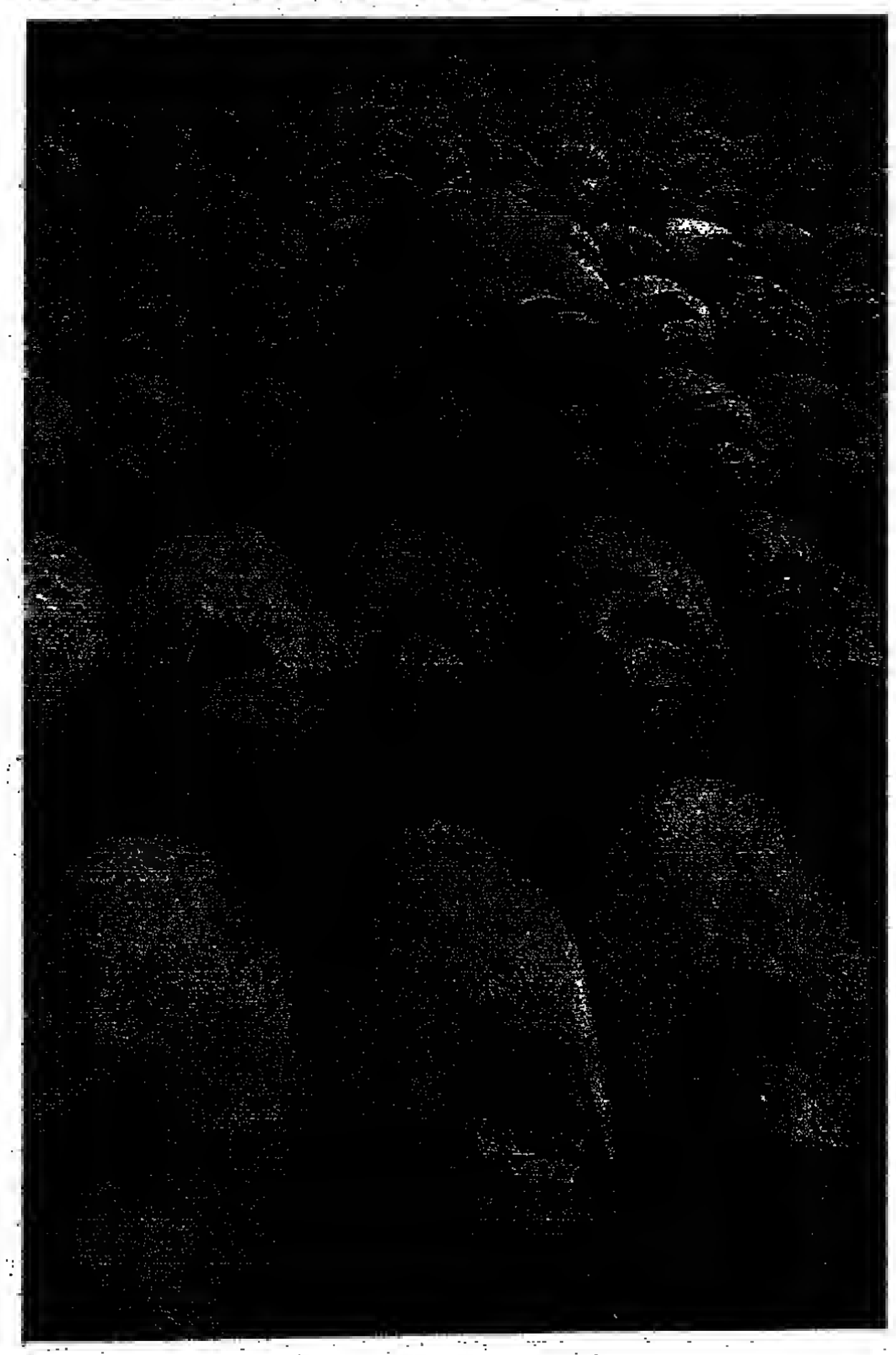
The Cunard steamship Catalonia, 4,841 tons. Although Samuel Cunard began transatlantic services in 1840, it was not until the 1880s that passenger liners began to provide some of the comforts of an hotel. By the end of the decade, Cunard had added 53,000 tons to the fleet, the largest increase by any British merchant shipping company in the 19th century. (National Maritime Museum) ▼



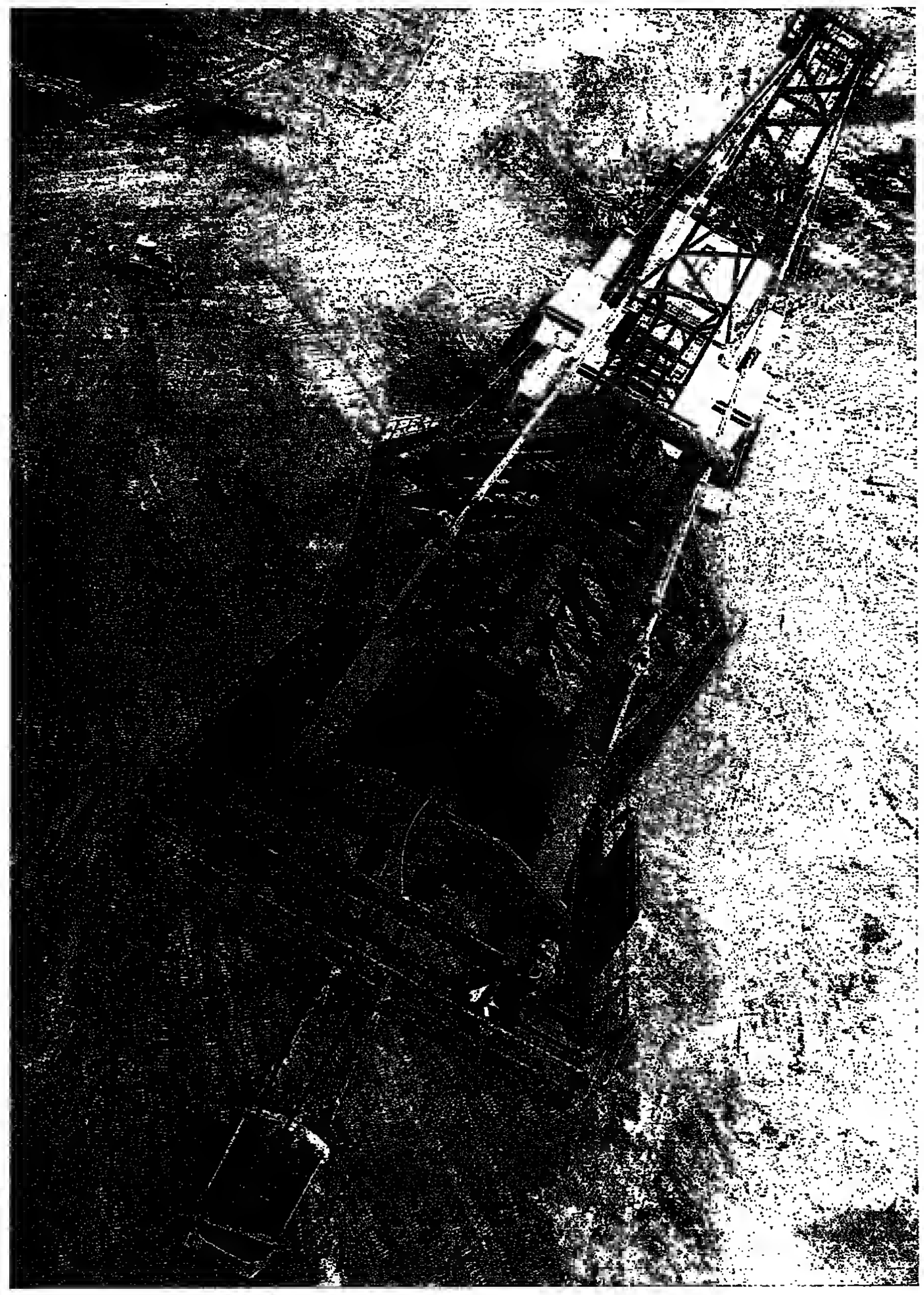


◀ The fish dock at Lowestoft around 1888. East Coast ports were the home for hundreds of herring boats. (BBC Hulton Picture Library)

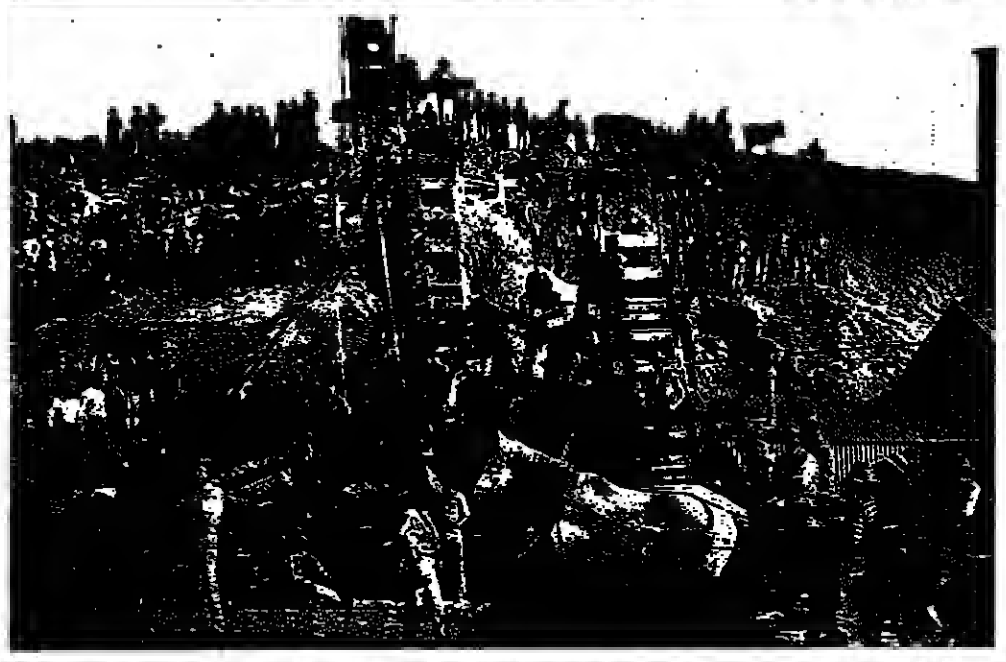
Tokyo's Tsukiji fish market – dealing with the Japanese capital's seemingly insatiable appetite for seafood. (Ashley Ashwood) ▼



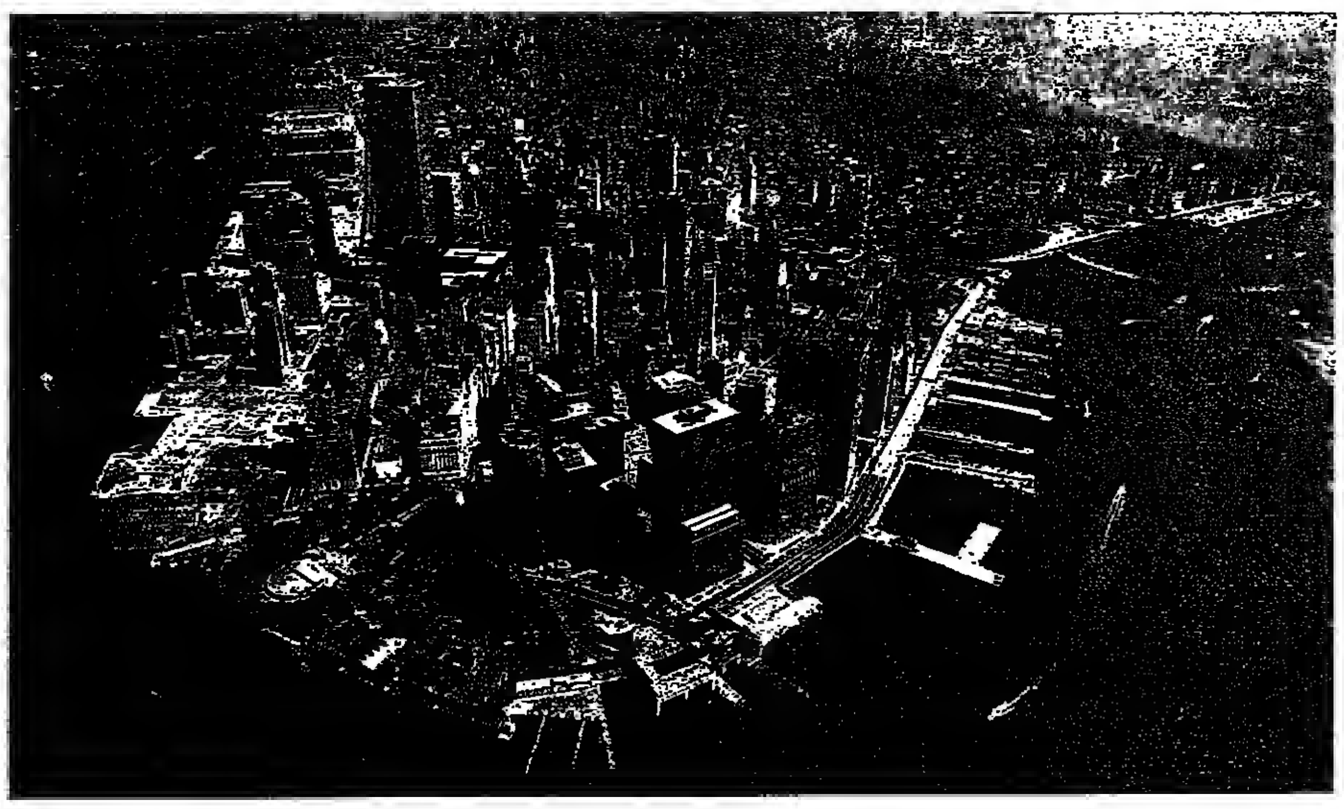
▲ Gas flares illuminate the night in the North Sea, 200 miles from Aberdeen. These Britoil platforms produce oil in what is probably the world's most difficult and dangerous environment. (Ashley Ashwood)



▲ Coal mining in the US – a giant electric-powered walking dragline at Dolet Hills, Louisiana. (Glyn Genin)



◀ Diamond mining in South Africa – Man and mule power at the Bultfontein washery. (BBC Hulton Picture Library)



▲ Manhattan Island today. Trinity Church is lost somewhere in the canyon between the twin towers of the World Trade Center and business district skyscrapers. (Glyn Genin)

New York's lower East Side. The spire of Trinity Church, at the end of Wall Street, with the harbour in the background. (BBC Hulton Picture Library) ▶

LATIN AMERICA: THE BRITISH LINK

A lengthy withdrawal

Britain was once deeply involved in Latin America's development, notes Robert Graham

THE PINK of the British Empire that shaded in so much of the world map a century ago ecarcely brushed Latin America. Yet Britain was the most influential foreign power, the biggest trading partner, the largest investor and the most important financier.

Two thirds of all foreign investment was British. Whether it was nitrates in Chile, railwaye in Argentina, silver in Mexico or loans to Peru, British financiers, traders or plain speculative adventurers led the the field. And the weight of the Victorian crown was not far behind.

Commenting on the extent of British power, an alarmed US senator, Mr. Henry Cabot Lodge wrote in 1895 apropos of Britain's presence in British Guyana and Nicaragua: "If Great Britain is to be permitted to occupy the ports of Nicaragua, take the territory of Venezuela, there is nothing to prevent her taking the whole of Venezuela or any other South American state".

Such a scenario never came to pass. Direct British investment is now down to under 2 per cent, having once been close to 40 per cent of all its overseas investment. The same is true of trade: Latin America accounts for a bare 3 per cent of total British trade

There are still four Britieb dependencies in the Caribbean (Anguilla, Cayman, British Virgin Islands and the Turks and Caicos), defence obligations in Belize and in the South Atlantic, possession of the Falklands and South Georgia, plus vast tracts of Antarctica). But as a focus of British interest it fits well behind Africa, even though that continent is of lesser global economic importance.

In an age of easy air travel, no British Prime Minister has set foot on the Latin American continent, except Mrs. Margaret Thatcher who briefly attended the Cancum summit (in Mexico) in 1981; and only three Foreign Secretaries have visited the region since 1945.

Apart from the coloniel regimes in the British West Indies, Argentina was where the British were most deeply involved. Britons may have been a relatively small proportion of the vast immigrant influx into Argentina in the late 19th century (the net inflow was 133,000 a year in the 1880s) but British capital was the most dynamic.

It is thus a curious paradox that Argentina, the country with which Britain established the closest ties of investment and kith and kin, should have provoked the most serious armed conflict, the 1982 Falklands conflict. As a result of the Falklands, Britain's defence commitments today are out of all proportion to the region's low priority listing.

Buenos Aires: UK trade involvement used to be strong

Britaio retains its largest defence commitment outside the NATO theatre and Hong Kong - in Belize with 1600 troops, and in the Falklands with 2,200 men. Indeed the overall cost of the Falklands cooflict, (fighting the war, replacing equipment, bolstering the islands' defences, plus upgrading the staging and intelligence facilities of Ascension Island) will add up to close on £4bn by 1990. This expenditure is equivalent to the volume of four years' British trade with the region.

From the 1880s to the beginning of the First World War, British power and influeoce was at its apogee. It was a position that owed very little to British emigration, and was based instead on the global nature of British capital and imperial power.

The British never troubled to absorb Luso-Hispanic culture or learn Spanish and Portuguese - perhaps out of a Puritan distaste for Roman Catholicism. But Baring Brothers determined the financial fate of Argentina; in Peru a group of Loodon bankers solved Peru's debt default witb a polemical scheme (inconceivable in the debt crisis of the 1980s) that cancelled all debt and provided £80,000 a year for 33 years against a 66 year concession to run the Peruvian railways and receive 3 tons of guano; in Chile British interests were able to control two thirds of the most profitable business oo the Pacific side of the Andes, nitrates.

The decline in British pre-eminence was initially due to the expansion of US power and trade plus the effects of the First World War. The process was slow and went relatively unnoticed until after the Second World War. In 1945 Britain still had £389m worth of investment in Argentina (and bought 40 per cent of its meat from there) and had a further £237m invested in Brazil.

The catalyet for what amonnted to disengagement from the region was the Peron nationalisation of the Argentine railways in 1947, part of a more georalised oationalist trend in Latin America which had begun nine years earlier with Mexico's nationalisation of the oil industry. Although £150m compeosatioo wae promptly paid out to Britain, British capital began to look elsewhere.

Succeseive governmeots did not halt the process. Britain possessed no real strategic interest in Latin America post 1945: not even in foodstuffs (in 1945 Britain was importing 40 per cent of its meat from Argentina). Although the region remained an important sources of raw materials, these could also be obtained elsewhere. Britain was also more concerned with its colonies, a preoccupation that tended to apply as much to the governments of the day as business.

The US Government in contrast extended its interests, demarcating Latin America as its sphere of influence. This led to an npsurge of trade between the region and the US which was further accentuated as a result of the restrictions oo sterling after the Second World War. Other industrialised countries expanded their share of trade, the most dramatic recent instance being Japan. Meanwhile, Latin America opted for an autarchic developmeot model that promoted import substitution, so lessening external traditional inward investment and trade.

After such e slow and lengthy disengagement, is the process likely to be in any way reversed? One thing is to recoup or retain influence, it is quite another to claw back lost commercial and investment opportunity. A number of elements, small in themselves, suggest the overall level of British involvement and interest has passed its lowest point.

The Falkiaods conflict focused renewed official attention on the region, and obliged the Government to raise its profile both to repair any diplomatic damage and to ensure an understanding of Britain's position on the future of the islands. As a result ministerial visits have been intensified; while greater efforts have been made to invite Latin American decision-makers to the UK.

The aftermath of the Falklands conflict coincided with the onset of the debt crisis. Although the region's huge debt burden has complicated relations with international creditors, official and commercial,there has been a positive side. Industrialised countries, like Britain, are more aware of Latin America and its very considerable potential.

More generally, the nature of interest has evolved in line with the regioo's socio-economic transformation. One hundred years ago, Brazil was the last country in the region to get rid of slavery. Slavery was the principal coocern of liberal groups io the UK, wbo now focus on human rights issues or ecological matters like the fate of the rain-forests and the future of Antartica.

Yet the gut reasons for Britain allowing such a decline its regional role has not changed: the absence of strong colonial links and the barrier of language. ends.

A BRITON ABROAD

The Member for Mexico

David Gardner on an association that absorbed the first Viscount Cowdray for 30 years

MOVING ROUND the Diego Rivera murals in Mexico City's National Palace, passing by the filtered gaze of pre- and post-Colombian class strugglers packed into them like giant sardines, one's eye might catch – in the far background against some oil rigs – a sign saying "Pierson."

A more sober, late Victorian painting hangs over the stairwell in the British embassy in Mexico City, a portrait of Weetman Pearson, the building's original owner.

Anyone calling the embassy for urgent medical attention would very likely be directed to the ABC, the American British Cowdray hospital.

This is the discreet stamp left on Mexico by Weetman Pearson, the first Viscount Cowdray and creator of S Pearson, the company which was in 1957 to acquire the Financial Times.

It belies the impact on pre-revolutionary Mexico, and the success, of a man said at the time (before capital flight became fashionable in Latin America) to have taken more money out of the country than anyone since Cortes.

In Mexico Cowdray carried out some of the great engineering feats of the age, on a par, some would argue, with the building of the Panama Canal. He also became a central protagonist in a two-year diplomatic rift between Britain and the US caused by Mexico. So close was his association with the country that his coat-of-arms has a Mexican emblem, and during his frequent absences as a Liberal MP he became known in the House as the "Member for Mexico."

Weetman Pearson's involvement with Mexico lasted an absorbing 30 years, ending in 1919 when he sold most of the Aguila or Mexican Eagle oil company to Royal Dutch Shell.

In 1889 Porfirio Diaz, the Mexican dictator forced out by the 1910-17 Revolution, sent an emissary to Pearson, the man who had started the Hudson River tunnel in New York and would shortly build the Blackwall Tunnel and the East River tunnels linking Long Island and Manhattan, to invite him to Mexico. Diaz wished him to drain Mexico City, built by the Aztecs originally on lakes and which was subject to repeated flooding and consequent disease. In the 18th century, the Spanish colonists of New Spain cut a 200ft-deep channel through the mountains that enclose the capital.

More recently, French and American engineers have failed to come up with solutions to this centuries' old problem; and Diaz turned to Pearson, then only 33, who came to regard the Mexican leader as "absolutely my hero...one of the great men of his age."

Pearson built what is known as the Gran Canal, 29 miles long, to the 18th century tunnel through the mountains, finishing in 1895. Desmond Young relates that at one stage during the lucrative contract Pearson found himself sitting on 50 tons of Mexican silver in London, possibly the origin of the Cortes bracket. Until 10 years ago, the Gran Canal was Mexico City's only drainage system. Pearson next turned to another problem unresolved since the Conquest, providing Mexico with a safe Atlantic harbour at Vera Cruz, another project which French and American contractors had just abandoned.

This work, contemporary with Pearson's construction of Dover Harbour, used Vera Cruz's coral reefs to anchor the breakwaters just as the Gran Canal scheme exploited the existing resource of the 18th century Zumpango Tunnel.

Pearson then built the still-operating railway across the Isthmus of Tehuantepec with harbours at both ends from Salina Cruz on the Pacific to Coatzacoalcos on the Gulf, where the Japanese are now financing an inter-ocean oil pipeline.

With the Americans then planning to dig a canal either in Panama or Nicaragua, this took some nice calculation and commercial nerve. Pearson operated the railway himself in partnership with the Mexican Government. He made large profits until the post-revolutionary government bought him out in 1918, before the rail link became largely superseded by the Panama Canal.

His biographers* record that Pearson took great pains over the working conditions, health and housing of his great armies of local labourers. Though Young, in particular, waxes hagiographical on ble "advanced ideas," while denigrating Emiliano Zapata as a precursor of Pol Pot, the number of deaths in Tehuantepec – a yellow fever area as virulent then as Panama – was trivial in comparison to the toll caused by building "Teddy Roosevelt's Canal" (Young says 16 in six years).

Weetman Pearson

While in Tehuantepec, Pearsoo's linguist chief engineer came across a large "exude" of oil known for centuries to the Indians as *chapoteros*. Pearson at the time was stuck on the Texan border amid hordes of feverish oilmen and, inspirationally, cabled him to buy or lease all the land he could find around it.

Thus began one of the great oil industry soccesses of the period. The south-east, now the heartland of the Mexican oil industry, yielded little. This did not stop this man of clearly unbounded optimism from building several pipelines, a refinery, and ordering three tankers before he had filled a barrel.

Fortunately for him. For on concessions he obtained further north, he brought in one of the great "gushers" of the age, the 100m-barrel Potrero Four well. Pearson's Anglo-Mexican Petroleum, the London-based internatiooal marketing company, was founded soon after, and was to become a prime fuel source for the Admiralty during the First World War.

Cowdray'e total approach to the industry – production, refining and distribntion – quickly brought him into conflict with the local subsidiary of Standard Oil, which supplied the Mexican market on a monopoly basis.

This conflict, and Standard's resort to a slanderous international disinformation campaign against Cowdray to prosecute its side of it, sowed the seed of the crisis in Anglo-American relations prior to the Great War.

The crisis centred on Britain's recognition of General Victoriano Huerta, who in mid-revolution seized power in Mexico and murdered Francisco Madero, its original leader. In Washington Woodrow Wilsoo took office imbued with a moral mission to make his benighted neighbours vote, and was quickly convinced by two singularly obtuse men, Walter Page, his ambassador in London, and Henry Lane Wilson, his ambassador in Mexico, that Cowdray had not only engineered British recognition, but if unrestrained, would gobble up half of Latin America.

The historian Peter Calvert has written e book* on the tortuous byways of Woodrow Wilson'e obsession with Mexico – marginally easier to understand than Mr Reagan's obsessioo with Nicaragua by virtue of its distance, from the US and in time. The obsession cost Cowdray dear. Somewhere between Page's two remarks lies the Monroe Doctrine, which was applied to Cowdray with the British Government eventually falling into line.

The Mouroe Doctrine, still in many respects Washingtoo'e policy in Latin America, consigns the whole of America as a solely US sphere of influence. As Britain sought US support after 1914, its government did a deal whereby Cowdray withdrew from oil exploration concessions he had won in Colombia and Costa Rica (in exchange for which the UK got equal rights with the US recognised on free passage through the Panama Canal under the Hay-Paunsefote Treaty).

Cowdray was indignant about the loss of freely-won cootracts, but in 1919, eight years after he left Mexico, he sold op Mexican Eagle (before Potrero Four ran dry). Had he been alive in 1938 when President Cardenas nationalised the Mexican oil industry he might have reflected on what Young singles out as "the Pearson luck," and that it was mostly US companies, Monroe Doctrine notwithstanding, that were expropriated.

**Member for Mexico: a Biography of Weetman Pearson, First Viscount Cowdray, by Desmond Young (Cassell, 1966); The Mexican Revolution 1910-1914: the Diplomacy of Anglo-American Conflict, by Peter Calvert (Cambridge Univ Press, 1968); Weetman Pearson, First Viscount Cowdray, by J. A. Spender (Cassell, 1930).*

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